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3001

PREM 19/2238

Housing Policy

Housing Bill

HOUSING

PART 1: May 1979

PART 12: May 1988

Referred to	Date	Referred to	Date	Referred to	Date	Referred to	Date
2-5-88							
4-5-88							
4-5-88							
23-5-88							
26-5-88							
27-5-89							
7-5-88							
10-6-88							
1-7-88							
16-5-88							
17-6-88							
1-7-89							
15-7-88							
19-7-88							
20-7-88							
21-7-88							
22-7-88							
28-7-88							
29-7-88							
X							
Closed							

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PART 12. ends:-

P. Gray to D. Environment

29.7.88.

PART 13. begins:-

~~Part~~ D. Env. to PG 5.8.88

The City Housing Committee has formally stated its objections to the Government about these proposals and expressed concern about their impact on tenants.

The City Council will do all it can to keep you informed about the proposed changes.

In the meantime the Housing Committee has confirmed its commitment to providing the best housing service it can and is continually looking at ways to improve services.

The Housing Committee already has regular meetings with Newcastle Tenants' Federation to consider and discuss the views of tenants in the provision and management of housing.

In planning the housing service however, we need as wide a range of views as possible.

If you have any ideas, or any comments you want to make on these proposals, then write to your local Area or Neighbourhood Manager, contact your local Councillor or join your local Tenants' Association. If one does not exist Newcastle Tenants' Federation can help with organising a Tenants' Association.

Once the Bill becomes law a landlord may write to you to say he would like to buy your home. If this happens your conditions of tenancy will change dramatically. You should think about the following:

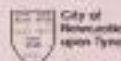
- * Your children will not have the legal right to take over the tenancy of your home if you die.
- * Your new landlord will be able to charge a "market rent" with no guarantee that all of the higher rent will be paid by Housing Benefit.
- * It will be easier for a new landlord to evict you from your home.

As a Council tenant your landlord is Newcastle City Council — made up of Councillors who you have elected and who you can approach if you are not satisfied.

As the tenant of a private landlord or Housing Association you would not be represented in this way.

REMEMBER:

If you want to stay as a Council tenant you will be able to do so. However as the Government's proposals stand you may be subjected to various proposals from individuals or companies wanting to take over your home. You will have to vote against each proposal in turn. If you do not vote it will be assumed you agree and your failure to vote against will be recorded as a vote in favour of transfer.



PREM 19/2238

THE GOVERNMENT PROPOSALS FOR HOUSING

WHAT CHOICE DO YOU HAVE?



The Government have published a Housing Bill which is likely to become law by the summer.

This note tells you briefly how you will be affected by the Government's proposals.

The Government intends to

Allow new landlords to take over homes rented from the Council:

- * through proposals to "change landlords", and
- * through the creation of Housing Action Trusts.

Remove existing controls on private rented housing.

This will involve:

- * charging market rents by abolishing "fair rents",
- * reducing the right of private tenants to protection against eviction, and
- * limiting the opportunity for tenants to pass on their home to members of their family.

Tenants whose homes are taken over by new landlords — whether this is a private landlord or a Housing Association — will be affected by these changes.

Even tenants who do not choose a new landlord will be affected.

- * If houses have to be sold at a price which does not fully pay the Council for what it owes on the property, this will have to be met through rent increases for remaining tenants.
- * If numbers of Council houses are sold to new landlords then the chances of transferring to other Council houses are reduced.



What do these proposals involve?

CHANGE OF LANDLORD

A new landlord will be able to approach the Council saying he wants to buy the homes on your estate. The landlord will then have to consult you and your neighbours, and you will be asked to vote on whether the homes should be sold to the new landlord.

The ballot will be organised by the landlord who wants to buy your estate.

To stop an area being taken over by another landlord a majority of tenants have to vote against the transfer.

If you do not vote this will be taken as a vote in favour of the new landlord.

A vote against transfer only applies to that application — and it is likely that in some areas where one proposal is turned down further applications may be made. You will need to vote

against each proposal in turn if you do not wish to transfer.

HOUSING ACTION TRUSTS

In certain areas the Government propose to establish Housing Action Trusts to take over Council estates.

You will have no choice over whether your home is included in such an area — although you will be notified of this. The aim of Housing Action Trusts is to improve and then sell existing Council houses to other landlords or for owner-occupation. Any proposals about the future ownership of your home would be made by the Housing Action Trust, subject to the consent of the Secretary of State.

How do these proposals affect you?

If you choose a new landlord you will lose your status as a "secure tenant".

As a result:

- * You lose your legal right to pass the tenancy of your home to your son or daughter if you die, and
- * you lose your legal right to be consulted on any changes that your landlord makes in the way your estate is run.

You will have to negotiate your new tenancy conditions with your new landlord. As a private tenant, however:

- * Your landlord will be able to charge a Market Rent. As a result you are likely to face rent increases which may not be fully covered by Housing Benefit, and
- * it would be easier for a new landlord to evict you from your home.

The choice of a new landlord is a one-way move.

If you transfer to a new landlord and do not like it or a new landlord fails to keep any promise, for example, about improvements to your home **you cannot change your mind and choose to become a Council tenant again** — but your new landlord may sell your home to another landlord who would not be bound by any promises made by any former landlord.

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FILE

KK



cc BG

10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

29 July 1988

Dear Roger,

REVIEW OF HOUSING SUBSIDY FOLLOWING LARGE SCALE DISPOSALS
OF STOCK

Prior to her departure for Australia the Prime Minister has had the opportunity only for a brief look at your Secretary of State's minute of 27 July and the attached letter by officials. She may wish to consider the issues raised more fully on her return and when she has seen any comments by colleagues. At this stage she has noted that the proposed arrangements will need to be modified for 1990-91 onwards to take account of ring-fencing. She has also commented that it will be essential to seek the Attorney General's views on the proposal for the subsidy arrangements to be operated retrospectively from April 1989 described in Paragraph 19 of the paper by officials.

I am copying this letter to the Private Secretaries of Members of E(LF) and to Sir Robin Butler.

Yours,
Paul

(PAUL GRAY)

Roger Bright, Esq.,
Department of the Environment.

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PRIME MINISTER

REVIEW OF HOUSING SUBSIDY FOLLOWING LARGE SCALE DISPOSALS

Mr. Ridley's minute of 27 July seeks agreement to revised rules for paying housing subsidy to local authorities following large scale disposals of their stock. He attaches a more detailed paper by officials, but I do not think you need to read that.

Peter Stredder's minute of 28 July recommends that you support the Ridley proposals. Peter does, however, bring out the important point that the Ridley proposals as they stand would only apply for 1989-90; they will need to be modified for 1990-91 onwards to take account of ring-fencing.

The only other point I would draw to your attention, which is buried deep in paragraph 19 of the paper by officials, is that although provisions would be included in the next Session's Housing Bill, the change in subsidy arrangements would operate retrospectively from April 1989.

Content, subject to the views of colleagues, to agree Mr. Ridley's proposals while noting:

- (i) that the arrangements will need to be modified for 1990-91 onwards to take account of ring-fencing; *Yes.*
- (ii) that the Attorney General's views on the element of retrospection proposed will be essential? *Yes*

Acc.

Paul Gray

28 July 1988

*I do not like having this
bounced upon me at this time
because I cannot look at it
as carefully as I would wish.
I would rather have the
misdemeanor not*

Previous

PRIME MINISTER28 July 1988REVIEW OF HOUSING SUBSIDY FOLLOWING LARGE SCALE
DISPOSALS OF STOCK

Nicholas Ridley has minuted seeking agreement to changing the rules on housing subsidy to take account of large scale disposals of housing stock.

The proposals would apply in the form proposed only to the financial year 1989-90. Since they envisage that in most cases local authorities will be responsible for meeting 25% of any outstanding loan charges on transferred property, they will need to be modified for 1990-91 onwards to take account of ring-fencing.

Background

The present housing subsidy system is based on actual costs in 1981 and notional changes in housing costs thereafter. Each year it looks at the increased costs each local authority would face from assumed increases in management and maintenance expenditure and actual loan charges and increased receipts from assumed increases in rents. The previous year's subsidy is adjusted by 75% of the net change in notional revenue. Subsidy is reduced by 65% of the income from interest on receipts from sales.

Because the system works mainly on notional costs, the change in subsidy when houses are sold is very rarely the same as the actual change in costs experienced by local authorities. This did not matter too much for right to buy disposals but will be much more significant where disposals are made on a large scale. Although a new subsidy system is to be introduced from April 1990 the existing system needs to be changed for 1989-90 because there will be some bulk disposals before then.

Nicholas Ridley's Approach

The approach Nicholas Ridley proposes for the future is to pay subsidy in respect of any continuing loan charges in respect of the transferred houses. The system assume that no management and maintenance costs continue, that rental income ceased and that the capital receipt will be used in the first instance to reduce the outstanding loan debt on the houses transferred. For voluntary transfers, 'Tenants Choice' and right to buy sales, the Government would then meet 75% of outstanding loan charges whilst for HAT's it would meet 100% with a further safety net to ensure that (as can happen in very high spending authorities) there is no loss of subsidy as a result of transfers to HAT's.

Assessment

A change in the subsidy system is needed in order to ensure that local authorities are not deterred from undertaking or encouraged to resist transfers of stock simply because of that system. Although local authorities in most cases will be left to meet 25% of continuing costs under these proposals, this should be seen as reasonable because, at least notionally, local authorities meet this proportion of net housing costs under the present subsidy system. It ensures that local authorities have an interest in negotiating a sensible disposal price. These arrangements will need to be rethought when the shape of the new subsidy system is clearer because local authorities will not have scope to meet the 25% of remaining costs through rate fund contributions.

Conclusion

We recommend that you agree to the proposals outlined in the note by officials attached to Nicholas Ridley's minute.

Peter Stredder

PETER STREDDER

22/10



PRIME MINISTER

REVIEW OF HOUSING SUBSIDY FOLLOWING LARGE-SCALE DISPOSALS OF STOCK

I am writing to seek your agreement and that of E(LF) colleagues to change the rules for paying housing subsidy to local authorities following large-scale disposals of their stock. The proposal first put forward by Rochford District Council to dispose of all their council housing to an independent housing association has as you know been followed by a significant number of other authorities. During Standing Committee of the Housing Bill we promised a review of the present housing subsidy system to examine the effect of these new developments, and the attached paper by my officials sets out the conclusions of that review.

The review was needed because our first calculations of the effect of large-scale voluntary sales of council housing on authorities' entitlement to Main Housing Subsidy showed that we would get bizarre results if we applied the existing rules unmodified. For some authorities who were showing interest in privatisation we would find ourselves paying Exchequer subsidy which the council did not need to balance its housing books, and which it would therefore spend on other services. For others there would be no Exchequer assistance, even though the council would be left facing a huge bill for servicing outstanding housing loan debt, with no rental income to meet it. This was obviously both unfair and inefficient, and the effects of large scale compulsory transfers through HATs seemed likely to be equally capricious.

So it has proved, and the attached paper shows how we can restore some degree of rationality and ensure that the operation of the subsidy system advances, rather than impedes, our other housing policy objectives. These objectives are three-fold:



- i. to use the subsidy system to keep up the momentum on voluntary transfer;
- ii. to reduce the wastefulness of paying subsidy where it is not needed; and
- iii. to ensure that authorities resisting the imposition of HATs are not able to claim that the forced transfer of their stock puts their ratepayers or remaining tenants in a worse position financially.

My basic proposal is that councils disposing of their stock should get subsidy to help them meet any loan charges left outstanding after the receipt has been used to pay off as much of the debt as possible, but that if they have no debt, they get no subsidy. I propose a 75% rate of subsidy on voluntary disposals, but on forced disposals through HATs, I see an overwhelming case for subsidy at 100%. Since the terms of HATs' acquisitions are entirely under our direct control, the usual arguments against subsidies at this level do not apply (paragraphs 16 and 17 of the paper).

I have also considered whether the existing subsidy rules can be allowed to operate without modification on disposals of individual properties, via right to buy or Tenants' Choice. I have concluded that the present arrangements are unnecessarily generous, and that we should therefore apply the same test in these cases as in bulk disposals, and pay subsidy only where it is needed. The reduction in subsidy for individual authorities would be marginal, too small to be a disincentive to processing RTB sales, but since the number of such sales are so large nationally (and forecast to increase), there should be a worthwhile saving of Exchequer subsidy overall, even allowing for the more generous treatment I am proposing for HAT authorities (paragraphs 13 and 14 of the paper).

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I would like to be able to issue a consultation paper on these proposals in September. Are you and E(LF) colleagues content for me to proceed to the drafting of a paper along these lines?

A handwritten signature in dark ink, appearing to be "N.R." with a flourish.

N R

27 July 1988

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HOUSING SUBSIDY FOLLOWING LARGE-SCALE DISPOSALS OF STOCK
MEMORANDUM BY THE SECRETARY OF STATE FOR THE ENVIRONMENT

1. The Parliamentary Under Secretary of State, Department of the Environment (Mrs Roe) announced during Standing Committee on the Housing Bill that a review was to take place of the housing subsidy system as it applied to large scale disposals of stock. The review was initially promised in the context of Housing Action Trusts (HATs), but it soon became clear that it should be broadened to examine the subsidy consequences of other large-scale disposals of local authority stock, including wholesale privatisation as proposed by Rochford and other authorities, Tenants' Choice, and also sales under the Right to Buy (RTB).
2. This paper, which has been agreed with Treasury officials, sets out the conclusions of the review and proposes changes to the housing subsidy rules to operate from April 1989.

The Review's Objectives

3. The present housing subsidy regime was not designed to cope with large scale disposals of stock. Its major limitations are:
 - (i) that housing subsidy entitlement is not a "zero based" calculation; each year the previous year's entitlement is taken as a starting point and additions or subtractions are made in respect of largely notional changes in income (e.g. from rents) and expenditure eg, on management and maintenance).
 - (ii) subsidy works mainly on notional, not actual changes; it follows that when a group of dwellings is sold the change in subsidy will rarely equate to the actual changes in income and expenditure in the HRA;
 - (iii) thus, subsidy might continue to be paid where a local authority has no further expenditure on dwellings which have been disposed of, or be nil where expenditure continues on loan charges on debt not paid off by the proceeds of a sale.

This is inequitable between authorities, and an irrational sharing of costs between central and local government. The point is more important with the new kind of disposals than it was with RTB alone.

4. In consequence, the review's purpose was to seek a subsidy regime that was not inherently unfair to authorities disposing of their stock. The three main objectives were thus to ensure:
 - (a) that local authorities are not financially disadvantaged as a result of either forced or voluntary disposals by the workings of the subsidy system, and would be free from excessive new burdens being placed on rate payers and remaining tenants;
 - (b) that local authorities do not benefit from windfall gains in subsidy from disposal;
 - (c) that in pursuing (a) and (b), there is proper continuity and consistency in the subsidy arrangements as between continued letting and disposal. (This does not necessarily rule out modest incentives to local authorities to dispose of their stock.)

Changes Proposed

5. To achieve these objectives, it is proposed to introduce from April 1989 a two-part system of housing subsidy, in which:
 - (i) subsidy would continue to be paid under the existing rules (or the new financial regime) in respect of dwellings remaining in a local authority's stock; and,
 - (ii) in respect of any dwelling sold by an authority, subsidy would be paid only in respect of loan charges on any outstanding debt related to the dwellings sold. (For subsidy purposes, it would be assumed that an authority had used the entire receipt from sales to redeem existing housing loan debt.)
6. These rules would apply to all disposals of a local authority's housing stock, whether as a wholesale disposal ("Rochfords"), under Tenants' Choice, on creation of a HAT, or continuing RTB sales. The effects of applying the

new rules to each type of sale will be different, because of the varying proportions that sale price, average outstanding loan debt, rental income and management and maintenance costs represent in each category. They are therefore considered separately below.

a) Wholesale Disposals

7. For voluntary disposals, such as that proposed at Rochford, the proposed subsidy changes are exemplified in Table A. They:
 - reduce some windfall gains;
 - provide a more rational level of assistance for authorities selling for less than their outstanding debt; and
 - cannot do anything to alter the financial position of authorities out of subsidy, who may gain considerable savings from privatisation - even sufficient to reduce local rates to zero.
8. The attached exemplifications need treating with great caution, for two reasons. First, because the estimates of purchase prices on which the figures are based are subject to very wide margins of uncertainty - quite conceivably over 50%. Second, because exemplifications for a sample of authorities may well be unrepresentative, especially if those who have taken their planning furthest are also the ones facing the least difficulty with subsidy, as seems to be the case. Subject to these strong reservations on the reliability of our figures, Table A gives some indications of the effect of the proposed subsidy changes for a number of authorities.
9. The main points to note are that:
 - a) the new rules ameliorate gains (except on those authorities out of subsidy) and losses: column 9 shows the effect of a sale on the rates under the new rules compared with no sale, while a sale under the old rules, compared with no sale, is shown in column 6; column 11 shows the difference;

- b) the balance on the HRA is in most cases more favourable following a sale than it is if the authority retains its housing: compare the cash amounts in columns 7 (new rules) and 4 (old rules) with the "no sale" alternative in column 3. In Authority A, making a substantial capital loss on the sale, the balance on the HRA is only more favourable following a sale under the new rules, which provide considerable assistance through an extra £0.7m subsidy. This pattern is likely to be typical of authorities who might sell their housing stock at a substantial loss; and
- c) the benefits of sale in authority C exceed the district rate (and the change in the subsidy system does not affect them because they are out of subsidy). This, too, is likely to be repeated in other authorities in a similar position.

b) Partial Disposals (HATs, etc)

10. The effects of the present and proposed new rules on subsidy entitlement have been assessed in the six authorities in which it is intended to create a HAT following enactment of this session's Housing Bill. It was assumed for the purposes of the calculations that in the case of HAT authorities, subsidy would be at a rate of 100% in respect of outstanding loan charges (see paragraph 17, below).
11. Those HAT authorities currently out of subsidy (Leeds and Sandwell) would under the proposed new rules receive a payment to help meet the additional loan charges which they would incur through sale of the HAT dwellings at a loss. They would therefore be better off under the new subsidy rules than under the present rules as applied to disposals, consistent with the objective set out in paragraph 4(a), above, of ensuring no financial disadvantage to authorities subject to enforced disposals.
12. Those HAT authorities currently receiving subsidy (Lambeth, Southwark, Tower Hamlets and Sunderland) would, however, receive less subsidy under the proposed new rules for disposal than they would have done without the transfer of dwellings to a HAT. The losses of subsidy, net of saving on general rate fund contributions, range from £19 per dwelling per year to £84 per dwelling per year. If it is assumed that the whole of any such 'deficit' on the HRA is met by increased rents, rather than by an increased rate fund contribution, then the rents of remaining local authority tenants would on average have to rise between 2% and 11%.

13. On these terms of transfer, the tenants remaining with the local authority would be financially disadvantaged by the additional rent rise caused by transfer of HAT stock. To avoid this, and to ensure the political acceptability of HATs, we propose that there should be a safety net. The 'safety net' would be designed to meet any loss in subsidy per dwelling between the proposed new rules and the present year, net of any assumed savings in rate fund contributions. It would ensure that none of an authority's remaining tenants or ratepayers suffered financially as a result of the transfer of stock to a HAT. For the six HAT authorities, the total cost of the safety net in 1988/89 would be £11.7m, which would be more than offset by the £16.7m saving in subsidy payments to these authorities as a result of the proposed new rules. The safety net would, on these assumptions, be self-financing, and the new subsidy rules would produce a net public expenditure saving of £5m.
14. There are two alternative mechanisms by which such a safety net could be implemented. The net could either be constructed as a payment to an authority under the housing subsidy system, or it could be a new specific grant to meet the unavoidable costs put upon an authority by the creation of a HAT. In either case, firm evidence of the size of actual, rather than notional, losses incurred would be needed before payments could be made. Our initial preference is for a safety net under the housing subsidy system. Further consideration will, however, be needed about the detailed mechanisms if colleagues agree the principle of a safety net.

c) RTB Sales

15. It is proposed that the new subsidy rules for disposals of stock should also apply to RTB sales. At present, treatment of RTB sales in the subsidy system is, if anything, over-generous, and the changes proposed will lead to a more equitable sharing of costs between the exchequer and local government. Table B exemplifies the effects of RTB sales on the subsidy entitlement under the present and new rules in two contrasting authorities, Broxbourne and Salford. Broxbourne's projected RTB sales in 1988/89 are for 4% of its total stock, at a relatively high average price (£35,000), and earning a capital 'profit' of £5.7m. Its subsidy would reduce to £0.14m under the new rules, £0.25m less than under the present subsidy rules for disposal. In Salford, two assumptions for average sale price (£10,000 and £15,000) are exemplified, but since both are comparatively low, and only

0.9% of the total stock is projected to be sold, the RTB sales have relatively little effect on Salford's subsidy entitlement (reducing it by only £0.04m and £0.13m respectively). If, as is likely, these two contrasting authorities are typical of authorities as a whole, the change of subsidy rules for RTB sales will have an insignificant impact on individual authorities.

Rate of Subsidy

16. We propose that housing subsidy under the new rules should in general continue to meet the proportion of housing costs which it has traditionally met, 75%. To ensure any authority has a financial interest in the valuation, we must arrange that the remaining portion of the loan charges are met from its general fund (we could not impose this on remaining tenants within the ring-fenced HRA under the New Financial Regime). Equally (because RSG supports extra expenditure 100% at the margin) we should not support this from RSG. We have therefore considered how large a burden should be imposed, without RSG, on the rate payer/community charge payer.
17. We have examined the arguments for a 100% rate of subsidy, but have concluded that this could if generally applied remove the incentive for an authority to seek the best price for its stock. We do not, however, rule out the possibility that when responding to a consultation paper on these proposals authorities may argue strongly for a higher rate than 75%, perhaps by means of special determination by the Secretary of State. In the case of HATs, where the transfer is being forced upon the authority and where the Secretary of State controls the sale price, we do, however, propose a 100% subsidy.

Public Expenditure Implications

18. Main Housing Subsidy counts as public expenditure. The effect of these proposals on the total housing subsidy bill will depend to a large extent on factors outside the Government's control, particularly the number and price levels of RTB sales, which form the largest proportion of all expected disposals. Provisional calculations do, however, suggest that the introduction of the new rules may produce a small, but useful saving nationally, which can in due course be reflected in PESC.

Implementation

19. Lawyers have confirmed that primary legislation, to amend the 1985 Housing Act, would be needed to implement the changes proposed. We envisage that this would be included in next session's Housing and Local Government Bill, but that the change in subsidy arrangements would operate retrospectively from April 1989. There are precedents for this, but the Attorney General's consent is likely to be required.

Consultation

20. If E(LF) colleagues are content with these proposals, we propose to draft a consultation paper for the local authority associations (as PUSS, DOE, promised in Standing Committee). We would hope to issue such a consultation paper in September, allowing four weeks for comments.

Conclusions

21. Ministers are invited to agree the conclusions of the review, namely that the housing subsidy rules should be altered by legislation next session to take account of disposals of local authority stock, including under RTB, so that:
 - (a) subsidy is paid only on outstanding loan charges in respect of stock disposed of:
 - (i) at a general rate of 75%, or
 - (ii) 100% in the case of HATs;
 - (b) subsidy continues under the existing rules for dwellings retained;
 - (c) a 'safety net' is introduced for HAT authorities currently in subsidy to ensure that the effects of any changes in subsidy entitlement do not disadvantage any of the authorities.

DEPARTMENT OF THE ENVIRONMENT

25 July 1988

TABLE A: WHOLESALE DISPOSALS OF STOCK

	(1)	(2)	EXISTING SUBSIDY RULES (1988/89)				NEW SUBSIDY RULES (1988/89)				
			NO SALE	WITH SALE			WITH SALE				
			(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)
	Profit (+)/ Loss (-) on sale	Interest (+)/ loan charges (-) on (1)	Balance on HRA	Balance on HRA	Gain compared with no sale	Balance on HRA	Gain compared with no sale	Gain compared with no sale	Gain compared with existing subsidy rules	Gain compared with existing subsidy rules	
				£m (4) - (3)	rate poundage		£m (10) - (5)	rate poundage	£m (10) - (7)	rate poundage	
AUTHORITY											
A	-14.8	-1.5	-0.1	-0.4	-0.3	-2.3p	+0.2	+0.3	2.3p	+0.6	4.6p
B	- 2.5	-0.25	+0.5	+1.15	+0.65	-6.1p	+0.65	+0.15	1.4p	-0.5	-4.7p
C	+22.0	+2.2	NIL	+3.9	+3.9	27.8p	+3.9	+3.9	27.8p	NIL	NIL
D	+0.3	+0.03	+0.76	+1.13	+0.37	2.2p	+1.3	+0.27	1.6p	-0.1	-0.6p

NOTES: Column 1: The assumptions about sale price on which the figures for profit/loss are based, whilst the best presently available, are subject to a wide margin of possible change, and the exemplifications should therefore be treated with caution.

The figures in this table assume that any subsidy paid under the proposed changes will be at 75% of the outstanding loan charges (col 2).

Columns 4 and 7: These columns show the sum of interest on accumulated receipts and mortgage repayments (both of which will continue even after wholesale disposal), and any subsidy payable.

TABLE B: DISPOSALS UNDER RTB

	<u>£m</u>								
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)*	(9)
<u>AUTHORITY</u>	Total No of dwellings	RTB sales in 1988/89	% of total stock	Average sale price (£)	Profit/ Loss on sale	Subsidy Entitlement, 1988/89 (without sale)	Subsidy Entitlement, 1988/89 <u>present</u> <u>rules,</u> with sale	Subsidy Entitlement 1988/89 <u>new rules,</u> with sale	Change in subsidy with new rules (Col 8 - Col 7)
BROXBORNE	4,924	200	4.0	35,000	5.7	0.80	0.39	0.14	-0.25
SALFORD	40,214	350	0.9	(a) 10,000	1.16	3.67	3.50	3.46	-0.04
				(b) 15,000	2.91	3.67	3.46	3.33	-0.13

* Positive subsidy entitlement on any outstanding loan charge/negative subsidy entitlement on any interest charges here assumed to be at a rate of 75%.

CONFIDENTIAL



*MBWA - this
copy answers the
note to the P.M.*

Treasury Chambers, Parliament Street, SW1P 3AG

*Rec'd
28/7*

The Rt Hon Peter Walker MBE MP
Secretary of State for Wales
Welsh Office
Gwydyr House
Whitehall
London
SW1A 2ER

27th July 1988

Dear Peter,

NEW FINANCIAL REGIME FOR LOCAL AUTHORITY HOUSING

Thank you for copying to me your minute of 20 July to the Prime Minister.

As I made clear in my 19 July letter to Nick Ridley, which may have crossed with your minute, the Department of Social Security must remain responsible for policy on rent rebates, as well as rent allowances and community charge rebates, for so long as they retain responsibility for Housing Benefit generally. And the level of resources required for rent rebates and rent rebate subsidies must continue to be a matter for settlement between John Moore and me in the annual Public Expenditure Survey. Accordingly, DOE and the Welsh Office will not be taking PES provision for this purpose. Assuming therefore that the Department of Social Security retains PES provision, the block problem you raise will not arise.

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

*Yours Ever,
John Major*

JOHN MAJOR

Housing: Policy and



②
PRIME MINISTER

*I hope the housing
Minister will pursue the
reimbursement
para. vigorously*
ml
27 July 1988

VISIT TO NEWCASTLE UPON TYNE HOUSING DEPARTMENT

I spent a day recently with Newcastle City Housing Department. I found a surprisingly well managed operation that appears to have come to terms with lower levels of expenditure while providing an improved service to tenants. I also found that the recent changes in social security benefits have already had some desirable social consequences.

However the City Council has scandalously misrepresented to its tenants the impact of the current Housing Bill - I attach the leaflet they have circulated to their tenants.

Newcastle's Council Housing

Newcastle's Housing Department is the best managed I have visited in a big city labour-controlled council. The key to this is decentralised management. There are 23 neighbourhood offices, each responsible for about 2,000 houses, divided between two or three Housing Officers, each of whom is responsible for all aspects (lettings, repairs, rents) of a defined portion of the stock.

I visited an area office and spent some time talking to the staff, including one housing officer who had worked under the old centralised system, still characteristic of most local authorities. She told me that there had been a transformation in service to the tenants. Under the previous system tenants had no direct contact with those able to take decisions and the system bred an endless chain of buck-passing. Now she knew most of her tenants by name - and they knew her - and who to blame if things were not done.

The council appears to have a sensible policy on rents. It no longer receives central Government housing subsidy and plans to phase out its own rate fund contributions over the next two years. Rents average £20 a week, above the national average (including London), and would only have to rise to £22 to eliminate subsidy. Costs of management at £79 per dwelling per year are £20 below the average for metropolitan authorities, while expenditure on repairs and maintenance at £273 a year is about the national average. Some 4 years ago the council restarted a cyclical maintenance programme, including repainting every 4 years, and this is already reaping dividends in lower repairs costs.

On the capital side, the council has been innovative in working with developers (eg Bellway Homes), and Housing Associations, (eg North British) to refurbish run-down estates. In particular, blocks of flats have been improved for sale to low income families. The council has continued with a programme of modernisation of its rented stock, but to a less ambitious standard than previously in accordance with the resources available. It now attends to roofs, windows and doors, improves insulation, installs central heating and rewires but does not alter the room pattern or instal new kitchens and bathrooms.

Right to Buy Sales

You will recall that there has been a national upsurge in 'right to buy' applications over the last few months. In Newcastle, applications have trebled. City council officials attribute this to:

- The capital ceiling on eligibility for housing benefit. Those elderly tenants who have lost entitlement probably have sufficient savings to buy their home outright (with maximum discount, at an average cost of £7,500).

Although they will also need to incur expenditure on maintenance, in many cases children will be able to help out with this. You may recall that Mr Walker made great play of this in recent discussions on flexi-ownership.

- Tenants don't want to risk becoming private sector tenants. Of course, under the Housing Bill there is no risk of tenants being transferred to a private landlord against their will, they have an absolute right to remain with the council. But, scandalously, the information the Council have given to its tenants in the attached leaflet makes no mention of this.

The Effect of Social Security Changes

The social security changes have had other effects as well. First, there has been a decline in the number of single people under 25 wishing to rent property from the council and local housing associations. This is because the needs allowance is much less generous than previously so that after paying rent, young people are not as well off as they would be living at home.

These changes are also making life more difficult for young, single mothers. I was told by the housing officer in the local office I visited that young girls are beginning to realise that getting pregnant to get a home of their own is not the 'way out' it seemed in the past. With the abolition of single payments, it is more difficult for them to set up home. Less money to live on coupled with the strain of coping with a baby on their own was making some think twice. But she did not see any prospect of these more difficult circumstances discouraging future single mothers.

Attitude to the Government's Proposals for Housing

Despite running a well managed operation that has adapted well to the changes of the last few years, Newcastle City Council is clearly hostile to the proposals in the current Housing Bill on private sector rents, Tenants Choice and Housing Action Trusts. In common, I suspect, with many similar authorities, they have knowingly misrepresented the effects of the Housing Bill to their tenants. Thus, instead of 'Tenants Choice' being seen as a tenant friendly measure it is seen as hostile by tenants.

The attached leaflet produced by the City Council is an example of the kind of propaganda being circulated. It contains a number of inaccuracies and omissions:

- it fails to mention that the rights of existing 'fair rent' tenants will be protected;
- it fails to mention that tenants have an absolute right to remain with the local authority even when a majority do not oppose transfer to an alternative landlord;
- it implies that the prime purpose of creating Housing Action Trusts is to dispose of tenanted property to other landlords or for owner occupation;
- it fails to mention that tenants of Housing Action Trusts will have the option of transferring back to the local authority when the Trust is wound up;
- it implies that landlords taking over local authority estates will be charging market rents when the intention is that rents should remain broadly at the level they would have been had the estate remained with the local authority;

- it fails to mention the scope for providing contractual safeguards, comparable to those already enjoyed by council tenants, if estates are transferred to housing associations or other new landlords.

The scale of misinformation about the Government's housing proposals is a cause for concern. I have been told by the Chief Executive of a large housing association that there is an orchestrated campaign masterminded by the Labour Party at national level and carried out through local councillors and tenants associations to discredit the Housing Bill. The Labour Party believe that their power base is at stake.

Until the Housing Bill becomes law, the Government is constrained in actively countering these claims. Thereafter, DoE plan to undertake an advertising campaign and the Housing Corporation will be responsible for promoting 'Tenants Choice'. But this may not be enough. I had started to discuss with William Waldegrave and plan to continue discussions with Lord Caithness about what else can be done more actively to promote the positive benefits to tenants of the present Housing Bill.

Conclusion

Three main conclusions follow from my visit to Newcastle:

1. That well managed local authorities are capable of providing a good housing service to their tenants within the resources currently available. In such authorities there may be little demand from tenants to take advantage of the new opportunities created in the Housing Bill.
2. The social security changes may already be having some desirable social effects by encouraging home ownership by those with savings, discouraging unemployed young people from leaving home and tilting the scales a little less

towards young single mothers. We shall be advising you further on this issue in the context of Nicholas Ridley's current review of the homelessness legislation.

3. Local authorities and politically motivated tenants associations are scandalously misrepresenting the proposals in the Government's Housing Bill. There is a limited amount that can be done to counter this until the Housing Bill becomes law. Thereafter we need to consider what should be done to supplement the Government and Housing Corporation information campaigns.

Peter Stredder

PETER STREDDER

cc pld



PRIVY COUNCIL OFFICE
WHITEHALL, LONDON SW1A 2AT

26 July 1988

1. *Ch. fi.*2. *pa.*MS
27/11

Dear Nigel

LEGISLATIVE PROGRAMME 1988/89: HOUSING (SCOTLAND) BILL

In drawing up the provisional programme for next Session QL indicated to Malcolm Rifkind that it was prepared to agree to the inclusion of three main Scottish Bills only on the strict understanding that one of them would start in the Lords. It was always clear that the Housing (Scotland) Bill would need to begin in the Commons because it would be following the England and Wales Bill in that House; and the Transport (Scotland) Bill is probably unsuitable for starting in the Lords since it is a privatisation measure. That leaves the Education (Scotland) Bill, but the changes to that Bill now being discussed in E(EP) will, in Malcolm's view, probably make that Bill rather too controversial for introduction in the Lords. Additionally, it is now clear that Nicholas Ridley's Housing and Local Government Bill will be a late starter next session, and a Scottish Bill following in its wake would be very late indeed.

In all these circumstances Malcolm Rifkind has proposed that the Housing (Scotland) Bill should be dropped from next Session's programme and I am writing to seek your views before a final decision is taken.

As you will recall, the Cabinet recognised in approving the provisional programme that it was at the limits of what could be managed. Since that time, there have been some further changes, the overall effect of which has been to increase the weight of the programme. The deletion of the Housing (Scotland) Bill would certainly be one way of lightening some of this increased pressure and would accordingly be welcome to the Business Managers. From our perspective, the essential point is that we cannot possibly have three main Scottish Bills starting in the Commons.

I should be grateful if you would let me know whether, in the circumstances, you would be content for the Housing (Scotland) Bill to be dropped from next Session's programme.

I am copying this letter to the Prime Minister, Malcolm Rifkind, Nicholas Ridley, John Belstead, David Waddington and Sir Robin Butler.

JOHN WAKEHAM

Rt Hon Nigel Lawson MP
Chancellor of the Exchequer



CBB
 2 MARSHAM STREET
 LONDON SW1P 3EB
 01-212 3434

My ref:

Your ref:

The Rt Hon John Major MP
 Chief Secretary
 HM Treasury
 Parliament Street
 LONDON
 SW1P 3AG

*NBA**HCB**ret*

25 July 1988

Dear John

NEW FINANCIAL REGIME FOR LOCAL AUTHORITY HOUSING

Thank you for your letter of 19 July giving your agreement to publication of the consultation paper on local authority housing finance. *file with PC*

By now you will have seen my letter to John Moore. I agree that we must be very clear about Departmental responsibilities under the new regime and, as you know, officials are working on a draft note to clarify these issues. The drafting of paragraph 21 of the consultation paper has been amended to reflect your concern about the system of incentives.

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

John
N Ridley

NICHOLAS RIDLEY

Housing - Policy Pr 12



ce BG



2 MARSHAM STREET
LONDON SW1P 3EB
01-212 3434

My ref:

Your ref:

his minute²

RA 16

22/7

RA

Alison Smith
Private Secretary to
The Rt Hon John Wakeham MP
Lord President of the Council
Privy Council Office
Whitehall
LONDON
SW1A 2AT

22 July 1988

MB

Dear Alison

file with per

My Secretary of State's minute of 14 July to the Prime Minister proposed that the consultation document on the new financial regime for local authority housing should be published before the House rose for the Summer Recess. E(LF) members have now agreed to publication of the paper and so my Secretary of State intends to make an announcement on Wednesday 27 July which will allow for printing. He proposes to make the announcement by means of a written Parliamentary Question and Answer (copy attached) rather than an oral statement on this occasion.

I would be grateful for confirmation that the Lord President is content with these arrangements. I am copying this letter to Paul Gray at No 10 and to the private secretaries of other E(LF) members, Murdo MacLean and Trevor Woolley.

John Roger

R BRIGHT
Private Secretary

DRAFT WRITTEN PQ

To ask the Secretary of State for the Environment when he will publish his proposals for a new financial regime for local authority housing and if he will make a statement.

My Rt Hon Friend the Secretary of State for Wales and I are issuing a consultation document today on a new financial regime for local authority housing in England and Wales. The paper has been placed in the Library and is available in the Vote Office. Copies will be sent today to local authorities and their associations.

A pattern has developed of major inconsistencies between authorities in the contributions to housing costs made by rent, rate and tax payers, and subsidies are not always being directed towards those authorities and their tenants who most need them. Also although many authorities have for years pursued sound policies, anomalies in the system of different sources of subsidy have given rise to distortions in the incentives to efficiency and good management. Subject to approval of proposed legislation by Parliament, the new arrangements will take effect from 1 April 1990. These will require authorities to maintain a new style Housing Revenue Account which will reinforce the distinction between the provision of housing and other local authority functions. A new "Housing Revenue Account Subsidy" will replace a number of existing central government subsidies and also local rate fund contributions from that date.

We intend that the new financial regime will make council landlords more accountable to their tenants and put tenants themselves in a position of greater equity as compared to tenants in other authorities.



File DG
CEBG

10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

22 July 1988

Dear Roger,

FLEXI-OWNERSHIP AND RENTS TO MORTGAGES

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

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

The meeting considered the Cabinet Office Note of 15 July. The Note recorded the outcome of further work on three schemes to extend the existing Right-to-Buy (RTB) scheme: a revised form of flexi-ownership put forward by the Welsh Office; the Rent-to-Mortgages (RTM) proposal put forward by the Scottish Office; and a variant of this scheme put forward by the Department of the Environment.

Your Secretary of State said that the distinguishing feature of the flexi-ownership scheme was that it provided an opportunity for tenants over 60 to move to owner-occupation without taking on any immediate financial liabilities. In his view it was not right for the Government to encourage older people on low incomes to take on repair and maintenance obligations which they might prove unable to meet. He therefore preferred the RTM route, which was designed to attract tenants who were already paying full rent out of their own pockets. It would, however, be unwise to make an early announcement that such a scheme was under consideration, for two reasons. First, there was now no prospect of incorporating it in the next Session's Housing and Local Government Bill. Second, conventional RTB sales were buoyant with £3 billion of receipts forecast for 1989/90: these receipts might be jeopardised if the possibility of a new scheme was announced well ahead of its implementation. He therefore favoured further work on a RTM scheme, but no immediate announcement.

The Secretary of State for Scotland said that he too favoured the RTM scheme without any special concessions for older tenants. This would ensure that people moving into ownership took on new financial liabilities and acted responsibly. In Scotland take-up of conventional RTB had been modest and the level of home ownership remained much lower than in the rest of Great Britain. His priority was to achieve a substantial switch to home ownership, and that was why he had put forward a generous scheme. Its financial implications in Scotland were more favourable than in Great Britain as a whole, because property prices were lower. However, he accepted that some changes of detail might be needed to prevent it being too attractive to tenants who could afford full RTB. In Scotland the scheme could be introduced quickly without legislation for tenants of Scottish Homes and New Towns, who comprised about one-fifth of the public rented sector. Local authority tenants were also being given a right to switch to Scottish Homes as their landlords, and there was therefore a route by which they too could participate without further legislation. He saw attractions in proceeding on this basis in advance of legislation.

The Secretary of State for Wales said that flexi-ownership, including the special scheme for tenants over 60, provided an unparalleled opportunity to increase owner-occupation and reduce the number of people dependent on housing benefit. Of the three schemes considered, flexi-ownership had the most favourable effects on the Public Sector Borrowing Requirement (PSBR) and was likely to cause the least switching from conventional RTB. It would provide new opportunities for those on lower incomes to become the owners of substantial assets which they could pass on to the next generation. Given this incentive, there was every reason to expect relatives to rally round older tenants and to help with the repair and maintenance of their dwellings. There was no reason why the State should insist on looking after old people. The worry about flexi-owners not repairing their homes had been much overstated. For all these reasons he felt that the Government should press ahead as fast as possible with a flexi-ownership initiative. He did not believe that the legislative provisions need be complicated.

In discussion the following main points were made:

- a. It was important to ensure, as far as possible, that any new scheme to encourage tenants to move into owner-occupation did not jeopardise the existing Right to Buy. A delay until RTB sales began to tail off would help to achieve that. But the detailed terms of the new scheme would in any event need to be pitched at a level where they did not appeal to a large number of tenants who could afford full ownership. In particular, the discount available under the new scheme should be less than the full RTB discount, and former tenants should have only a part share in the equity of the house.
- b. There were dangers in a special scheme for older tenants which allowed them to move to home-ownership without taking out a mortgage. But there could also be substantial benefits,

particularly in terms of a reduction in numbers of tenants on housing benefit. A substantial number of older tenants who were deterred from exercising their Right to Buy could be attracted to such a scheme. There was every reason to expect their children and other relatives to be willing to help with repair and maintenance in return for the substantial asset they would inherit.

c. Both the circumstances of tenants and the nature of housing problems were different in different parts of Great Britain. There might well be a case for variations in the terms of any new flexi-ownership or RTM scheme to reflect these regional differences. Indeed in England there might also be a case for considering changes in the existing RTB scheme, such as an increase in the maximum discount for flats.

d. The proposal to operate an RTM scheme in Scotland through Scottish Homes and New Towns could avoid the need for legislation. The possibility of adopting a similar course in England and Wales, possibly through the Housing Corporation, should be explored further.

e. It would be important to ensure, as far as possible, that tenants who took up RTM or flexi-ownership did not subsequently come back on to housing benefit.

The Prime Minister, summing up the discussion, said that there was a strong case for a new initiative during this Parliament on the lines which were now emerging to extend home ownership on a large scale to tenants who could not afford it at present. It would not be possible to include this initiative in the Housing and Local Government Bill in the next session. Legislation would therefore be appropriate in the 1989-90 session and work should proceed on this basis. But there should be no announcement at this stage.

It was important that the new scheme should be distinct from, and less favourable than, the conventional Right-to-Buy scheme. There would have to be a clear enough gap between the two schemes. Those who had already bought their own homes under the Right to Buy should not be made to feel that they would have done better if they had waited (a point which also applied to improving the terms of the Right-to-Buy scheme itself). And there was a need to ensure that the buoyant level of RTB sales forecast for the next three years was not undermined: postponing the legislation until 1989-90 would help to achieve this. The terms of the new scheme should therefore be set in such a way that it would be attractive to tenants on lower incomes but not so attractive as the Right to Buy to those who could afford full ownership. The discounts under the new scheme should be less generous than under conventional Right to Buy. Former tenants should benefit from only a part share in the equity of their houses. The public sector charge should be index-linked or otherwise related to market prices, not set in cash terms. Those who took up the new scheme should give up their right to go onto housing benefit at a later date: this was a very important point.

And the scheme should be comprehensible.

On the particular schemes in the Cabinet Office paper, there were strong attractions in the revised flexi-ownership proposal including its special concessions for tenants over 60 which would help to reduce the number of people on housing benefit. Further work should be done on this basis in the light of the discussion, drawing not the other Rent-to-Mortgage proposals where appropriate, with a view to producing a single scheme. Such a scheme might have to include flexibility to respond to different circumstances - in particular different levels of supply and demand - in different parts of Great Britain. Decisions would be needed on how and where the residual public sector charge on properties which were sold should be held. Further consideration should also be given to what could be achieved under existing legislation and policies. The Cabinet Office should co-ordinate a further report by officials, covering all these areas, for a meeting in the Autumn.

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

Yan,
Pcl
—

(PAUL GRAY)

Roger Bright, Esq.,
Department of the Environment.



2 MARSHAM STREET
LONDON SW1P 3EB
01-212 3434

My ref.

Your ref.

The Rt Hon John Moore MP
Department of Health and Social Security
Richmond House
79 Whitehall
LONDON
SW1A 2NS

21 July 1988

Dear John

NEW FINANCIAL REGIME FOR LOCAL AUTHORITY HOUSING

Thank you for your letter of 18 July, ^{file with PC} and for your agreement to the draft consultation paper (my officials have taken on the minor drafting changes from your Department).

You raised some specific points about the precise way the arrangements will work. It is indeed right that the level of subsidies, and the structure of selective incentives, for rent rebates in England and Wales should remain in harmony with those for rent allowances nationally and for rent rebates in Scotland. I agree that, while your Department has responsibility for the benefit rules, it should continue to have policy responsibility for these particular subsidy issues. It will be essential of course that that responsibility be exercised in close consultation with my Department, where the lead responsibility will lie for other parts of the new subsidy regime. I am told that officials in our Departments, the Treasury and the Welsh Office are working on a draft note that will define responsibilities in terms of PES and Vote accountability.

I also agree that your officials should be fully involved in the scrutiny of individual claims for subsidy: their knowledge of the benefit rules and their expertise will be important to my Department in this scrutiny, and equally your own Department will need to continue its direct contact with local authorities.

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

Nicholas Ridley

NICHOLAS RIDLEY

PRIME MINISTER

FLEXI-OWNERSHIP AND RENTS TO MORTGAGES

You saw the Cabinet Office paper and detailed annexes prepared by the Welsh Office, Scottish Office and Department of the Environment last weekend. This paper is at Flag A.

I now also attach:

Flag B - Cabinet Office brief

Flag C - A note by Peter Stredder which gives a Policy Unit recommendation on each of the points for decision, and urges you to repeat your earlier request for a separate paper on the future role of Housing Associations.

On the Housing Associations point, my impression is that there is some difference of view between Messrs. Ridley and Waldegrave; but that they are agreed they want to get the provisions in the current legislation in place before contemplating a further radical look at the role of Housing Associations.

As to the different flexi-ownership schemes, I think it should be possible to reach a reasonable consensus, or at any rate an agreement on the types of schemes most suitable for the different parts of GB. The more difficult issue will be whether to press ahead now with the introduction of such schemes - supported by the Policy Unit - or to leave them on the back burner until the Right to Buy runs out of steam - as the Department of the Environment and the Treasury are likely to argue.

PLC
PG

20 July, 1988.



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step.
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PRIME MINISTER

NEW FINANCIAL REGIME FOR LOCAL AUTHORITY HOUSING

I have seen Nicholas Ridley's letter to you of 14 July seeking clearance to the circulation of a joint consultation paper on the new financial regime for local authority housing.

I am content in principle with the proposals, but now that some of the details are beginning to emerge there are some points that cause difficulty.

? |

One of my main concerns arises from taking rent rebates into the Welsh Office programme. My present main housing subsidy line is only some £11 million. By incorporating subsidy for rent rebates for council tenants this will increase to around £160 million.

This is a substantial item of expenditure to be added to my block. I understand that in the current year the rent rebate figures for England and Wales were £2,108 million and £146 million respectively. That means, because of higher average rent levels in Wales together with a higher proportion of tenants in receipt of rebates in the Principality, expenditure here is about 6.93% of that in England. This compares with the normal PES formula consequential for Wales of 5.88%.

At a time when my block programmes are under increasing pressure I really cannot accept that future adjustments to the provision for rent rebates should be subject to the existing formula, leaving me to make good annually the cumulative shortfall in consequentials from elsewhere in my block.

While I am aware that officials are looking at the public expenditure and accounting implications of the proposals, my agreement to the issue of a joint consultation paper must be conditional upon acceptance that the PES implications of the proposals will be considered year by year for Wales on the same basis as for England.

/On another point



On another point I have yet to decide on the details of the way in which the transitional arrangements for the introduction of the community charge would apply. I think it would be premature to commit myself in Wales to safety-netting HRA transfers to the general rate fund, as the final sentence of paragraph 20 does. Indeed I can see good reasons for not safety-netting such transfers. I would prefer this sentence to be left out, but if it is to be retained then I should like it to refer just to England.

Finally I think that the wording of paragraph 8 as drafted could cause unnecessary offence to local authorities especially amongst our supporters and could be toned down without losing the point.

I am copying this letter to other members of E(LF)

Keith Jamies

20 July 1988

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



SCOTTISH OFFICE
WHITEHALL, LONDON SW1A 2AU

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CONFIDENTIAL

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

19 July 1988

Dear Nicholas,

AG with AG

NEW FINANCIAL REGIME FOR LOCAL AUTHORITY HOUSING

I refer to your minute of 14 July to the Prime Minister seeking agreement to the publication of a consultation paper on the new financial regime for local authority housing.

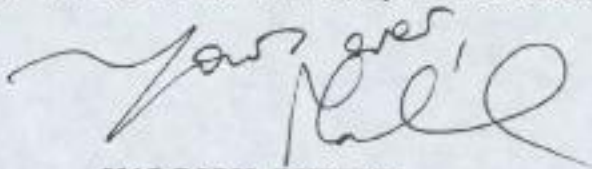
I am content that you should proceed as you have proposed and I have no comments on the content of the consultation paper. As you know, I do not envisage at this stage a need for similar action in Scotland. I have already brought rate fund contributions to housing revenue accounts under my control; to all intents and purposes, such accounts are ring-fenced in Scotland. Furthermore, Scottish local authorities do not generate substantial surpluses on their housing revenue accounts; given the low level of their expenditure on stock management and maintenance, I do not expect such surpluses to arise in the foreseeable future.

I note with interest the arguments discussed in your minute about the replacement of the "local" contribution (in the form of rate fund contributions) with Exchequer support through the new HRA subsidy. In Scotland, we have been progressively reducing the extent to which local authorities may make rate fund contributions; indeed, I expect to have completely eliminated such local contributions before your proposals are brought into effect. Furthermore, the process of reducing such contributions from £139 million in 1984-85 to nil by 1991 will have been accomplished by increased rental income, rather than by compensatory increases in Exchequer support as you propose.

I have asked my officials to keep in touch with the discussions on the development of administrative, financial and legislative arrangements for the new regime. Although I have no plans at present to seek

similar arrangements for Scotland, I wish to keep the position under review.

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

A handwritten signature in black ink, appearing to read 'Malcolm Rifkind', with a stylized flourish at the end.

MALCOLM RIFKIND



B

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P 03191

PRIME MINISTER

HOUSING POLICY: FLEXI-OWNERSHIP AND
RENTS TO MORTGAGES

[Note by the Cabinet Office, 18 July 1988]

DECISIONS

1. There are three main issues on which you may want to focus discussion:

i. whether there should be a Rents to Mortgages (RTM) scheme for tenants paying full rents from their own pockets. This is now a common feature of proposals from all three Departments, including the flexi-ownership scheme;

ii. whether in addition there should be a special scheme for tenants over 60 to allow them to move to home ownership without taking out a mortgage, as proposed by the Welsh Office. Mr Walker is strongly in favour of such a scheme (which would cover over half of tenants on housing benefit) but Mr Ridley is against it;

iii. whether one or both of these schemes should be introduced as soon as possible, or delayed until conventional Right-to-Buy (RTB) sales decline. Mr Walker may be keen on early legislation but Mr Ridley will be anxious at all costs not to include provision in his Housing Bill next Session, and will deploy the (strong) argument that early introduction would damage RTB receipts which are running at record levels.

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2. You will also want to decide how work on such a scheme should now be carried forward. One possibility would be to ask Mr Ridley to take over the work. The other would be to remit it once again to the official group under Cabinet Office chairmanship. If you take the latter course there are a number of detailed points on which it would be helpful to have guidance (paragraphs 7 and 8 below).

BACKGROUND

3. At the meeting on 26 May, the small Group of Ministers were enthusiastic about Mr Walker's flexi-ownership proposal. But they recognised that further work was needed in a number of areas, including the danger of abuse, the implications for repair and maintenance, the scope for avoiding public expenditure costs, and the implications for other Government policies. Mr Rifkind subsequently wrote to you on 9 June about his Rents to Mortgages proposal, and we were asked to include this in our work.

4. The new Note reports on further work in all these areas. In response to the points made on 26 May the Welsh Office have made substantial changes to the flexi-ownership proposals. These now incorporate a Rents to Mortgages requirement for tenants paying rents in full. The earlier proposal to allow all tenants on housing benefit to participate has been dropped in favour of a special scheme for tenants over 60, under which they would be exempt from the mortgage requirement. This is now the major difference between flexi-ownership and the two RTM schemes put forward by the Scottish Office and DOE respectively.

5. The official Group have prepared a new financial appraisal of the three schemes put forward by Departments (paragraphs 17 and 18 of the Note by Officials and Annex D). These suggest that flexi-ownership performs best in NPV terms, for two reasons: first because of the special scheme for the elderly; and second, because it is less generous over bonus equity points than the RTA schemes. As before, the cash flow in the early years is beneficial if there is little diversion from conventional RTB, but unfavour-

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able if there is substantial switching. The DOE RTM scheme also shows net benefits on the former assumption, but costs, even in NPV terms, on the latter assumption. The Scottish RTM scheme has PSBR costs on both assumptions about take up.

MAIN ISSUES

Rents to Mortgages for tenants paying full rents

6. So far as tenants paying full rents are concerned, all three schemes have much in common. A tenant would be required to convert his existing rents, less £5 per week to allow for maintenance, into a mortgage. The resulting capital sum would purchase a proportion of the dwelling, to which would be added all or part of the tenant's RTB discount. Further bonus equity points would be earned in subsequent years, increasing the former tenant's share in the dwelling. You will probably want to agree to further work to develop this scheme in detail. Ministers will however have different ideas about the timing of introduction (see below).

7. If you endorse a scheme of this sort, it would be helpful to have guidance on the issues set out in paragraphs 5 to 9 of the Note by Officials. Most relate to the balance to be struck between maximising take up on the one hand, and minimising diversion from conventional RTB on the other. You will probably want to seek options which will, so far as possible, make the new RTM scheme attractive to tenants with insufficient income to take up RTB, but not to those who can afford to buy outright.

8. More specifically:

- i. size of the initial discount. The Scottish Office RTM scheme would allow a tenant his full RTB discount, which seems too generous. The DOE RTM scheme would allow only a proportion of the RTB discount, reflecting the proportion of

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the full RTB price paid by the tenant. This may be too restrictive. You may therefore want to agree to allow the RTB discount minus 10 percentage points, as under flexi-ownership;

ii. the scale of equity bonus points. An RTM scheme might attract criticism if it provided a scale of bonus points more generous than the rate at which the RTB discount increases while people remain tenants. You may therefore want to agree to allow bonus equity points of 1% per annum for houses and 2% per annum for flats, on the basis set out in the flexi-ownership scheme;

iii. basis of the public sector charge. A charge on the property fixed in cash, as under the Scottish RTM scheme, would amount to a mortgage with no repayments. This seems too generous: there would be no real incentive for any tenant to take up conventional RTB. You may therefore want to agree that the charge should be either a proportion of the market price (as in the DOE scheme) or be indexed to local house prices (as with flexi-ownership);

iv. body to hold public equity stake. The Welsh Office propose that the Housing Corporation should benefit from all the capital receipts under the scheme. That would bring the use of those receipts under effective Government control. But it would undoubtedly be opposed strongly by local authorities, who would present it as confiscation of their assets. It may be that the new financial regime for council housing and the new capital control scheme will remove some of the problems with the local authority route. You could ask Mr Ridley to consider this further and report back;

v. eligibility for social security benefits. Tenants who had been paying rents in full would not initially be eligible for any help with their new mortgage payments. But if their circumstances changed and they came onto income support they would be eligible for assistance with mortgage interest

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payments. In this respect they would be treated in the same way as other mortgagees. However under present DHSS rules existing income support claimants might also be permitted to take up RTM, since their mortgage payments would be less than their rents, reducing the overall burden of benefits. You may want to consider whether this is acceptable. If not, you will want to ask Mr Moore to look into it.

Special scheme for older tenants

9. Under the revised flexi-ownership scheme tenants over 60 would still be able to move to home ownership without taking on any financial liability except maintenance and repair costs. Excluding younger tenants in this way should reduce the danger of abuse. At the same time over half of tenants on housing benefit would qualify, so that there would still be a prospect of a substantial reduction in the dependency culture, with corresponding public expenditure savings. Older tenants would also get an asset which they could pass on to the next generation.

10. Against that, Mr Ridley is likely to point out that the scheme might attract some older tenants who could not manage repair and maintenance. Help from relatives might not be forthcoming in practice in all cases. There might therefore be a deterioration in the housing of some elderly people, with adverse publicity and pressure for Government action. The houses removed from the public rented sector would be those most likely to become available for re-letting in the short to medium term, and there might therefore be pressure for new building in this sector.

11. You will want to decide whether the balance of advantage favours a special scheme for older tenants. If you did not want to include this feature from the outset you could hold it in reserve. It could always be introduced later in the light of experience with a RTM scheme for tenants on full rents (including many older tenants).

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Timing

12. Early introduction of an RTM scheme might maximise the number of tenants moving to home ownership in the next few years. But it could also lead to a diversion from the conventional RTB and a consequent loss of receipts. RTB sales are currently very buoyant - the estimate of capital receipts in England this year has just been revised upwards by no less than £1 billion to £2.3 billion. Mr Ridley is likely to press the case for delaying the introduction of an RTM scheme until the current surge of conventional sales subsides.

13. You will also want to consider the implications of the legislative timetable. Mr Walker is anxious to make early progress, and may argue that his scheme should be included in Mr Ridley's Housing and Local Government Bill next Session. But the Business Managers are already concerned about the potential size of this Bill, and are discussing with Mr Ridley whether any parts could be postponed. Adding flexi-ownership or RTM provisions could exacerbate the position.

14. The best course may therefore be to commission further work on RTM or flexi-ownership, but to agree that it cannot be for legislation before the 1989/90 Session. A decision on the timing of implementation could then be taken later in the light of the most up-to-date RTB sales figures.

NEXT STEPS

15. Further work will be needed to turn your decisions into a detailed scheme. You will want to consider, in the light of the discussion, whether you could now ask Mr Ridley to do this further work in consultation with Mr Walker, Mr Rifkind and Mr Major. If not, you may want to ask the official Group to prepare a further Report for a meeting of Ministers in the Autumn. In that case, it would be particularly important to have guidance on the detailed issues covered in paragraphs 5 to 9 of the Note by Officials.

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VIEWS OF MINISTERS

16. Mr Walker will be concerned to get agreement to his revised flexi-ownership proposal, in particular the special scheme for older tenants. He is likely to press for an early announcement, and the earliest possible implementation. Mr Ridley will probably argue that no new scheme should be announced until conventional RTB receipts tail off. He may suggest that Ministers should look to less radical proposals to enhance the conventional RTB (eg changes to discounts), rather than to RTM or flexi-ownership. But he is likely to accept that RTM should be worked up in detail, provided the proposal for a special scheme for over-60s (to which Mr Walker attaches importance) is dropped. Mr Rifkind is also likely to favour RTM without a special scheme for older tenants. But he may be keener on early implementation because take up of conventional RTB in Scotland has been modest and owner occupation is lower than elsewhere in the UK. He may suggest that Scottish Homes could make a start with RTM in advance of legislation to apply it to local authorities. Mr Moore is likely to support Mr Walker's scheme for older tenants in particular, because it is the only remaining proposal which could reduce the scope and cost of housing benefit: he may even propose that this scheme could be introduced separately from RTM. Mr Major is likely to accept that further work should be done on both RTM and a special scheme for over-60s. But he may also argue against an early announcement, or implementation until conventional RTB sales decline.

RJW

R T J WILSON
Cabinet Office
19 July 1988

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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

NBRM ✓
this stage

REC6

12/7

19 July 1988

Dear Secretary of State,

NEW FINANCIAL REGIME FOR LOCAL AUTHORITY HOUSING

Thank you for copying me your minute of 14 July to the Prime Minister.

I am content for you to publish the consultation paper as you suggest. On reflection, I agree with you that there is a strong case for meeting the continuing cost of subsidy to the new housing accounts entirely centrally. Given the discipline which ring fencing will apply, we will have clear controls over the cost of future subsidy. And by paying subsidy on net rents, we are effectively already seeking a substantial local contribution to the cost of housing.

One consequence of your proposals is that rent rebate subsidies would no longer be paid to local authorities by DHSS; they would be absorbed within the new Housing Revenue Account subsidy to be paid by your department and Welsh Office. The draft consultation paper does not go into detail about how this change would work in practice. And I know that officials are still considering this. But I think that it is important that we are clear on the main parameters.

The first of these is that Departmental responsibility for policy and expenditure on rent rebates and rent rebate subsidy should remain clear under the new arrangements. Unless and until there is agreement on a transfer of responsibility for housing benefit as a whole, this means that DHSS must remain responsible for policy on rent rebates, as well as for rent allowances and community charge rebates. And the level of resources required for rent rebates and rent rebate subsidies must continue to be a matter for settlement between John Moore and me in the Annual Public Expenditure Survey.

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The second point is that the main responsibility for checking local authorities' entitlement to rent rebate subsidy should continue to lie with DHSS. Clearly, it would be wrong to allow the new arrangements to generate unnecessary duplication of work in this regard, resulting in additional running costs expenditure for both your Department and the Welsh Office.

The third point to which I attach importance is that the system of incentives for local authorities to administer rate rebate subsidy economically and efficiently should remain in force and that, moreover, we should have flexibility to increase those incentives should we wish to do so. I am glad that paragraph 21 of the draft paper addresses these issues, though perhaps the final sentence should be worded slightly differently. It should emphasise that a system of incentives will remain without implying that the particular features of the current system will necessarily continue.

I am sure officials will aim to work up a detailed scheme which will meet my concerns on these points.

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

Yours sincerely,

Jim Keble
—



PP JOHN MAJOR

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

cc B'uf
C

PRIME MINISTER

19 July 1988

FLEXI-OWNERSHIP AND RENTS TO MORTGAGES

Your last meeting supported flexi-ownership in principle but asked for further work to remove some potential pitfalls. This work has produced three schemes that are narrower in focus than the original one concentrating primarily on those tenants paying full rents. Each scheme would enable any tenant to turn his rent into a mortgage repayment but only Mr Walker's version could offer preferential terms to for the elderly. None would offer special terms to tenants on housing benefit.

This note recommends that you support the development of a 'rents to mortgage' (RTM) scheme with special terms for the elderly. In addition, other tenants on housing benefit should be enabled to purchase part of the equity in their house for a modest sum.

1. THE REVISED SCHEMES

The meeting will consider three new schemes:

- a radically revised flexi-ownership scheme;
- Mr Rifkind's 'rents to mortgage' (RTM) scheme;
- a scheme put forward without enthusiasm by Mr Ridley as a less bad version of Mr Rifkind's.

The focus of these schemes is on extending home ownership to those paying rent in full from their own resources.

Each would allow tenants to turn their current rent less £5 a week into a 25 year mortgage (the "RTM mortgage"). An

average rent of £17.40 a week in England, less £5, at a rate of 9.75% would repay a RTM mortgage of about £6,900.

All the schemes envisage that tenants would:

- Be required to purchase an amount of equity equal to their RTM mortgage, either from savings, with help from relatives or with a mortgage.
- Would be given a proportion of the equity in their house related to their "right to buy" (RTB) discount. Mr Rifkind would give the full RTB discount, Mr Walker RTB minus 10% and Mr Ridley a proportion of the RTB discount depending on the value of the house and the size of the RTM mortgage.

And that:

- a charge on the balance of the equity would be held either by the Housing Corporation (Mr Walker's scheme) or by the purchaser's former landlord (other schemes).

Additional Equity

All schemes then credit the purchaser with additional annual tranches of equity:

- Under Mr Walker's scheme an extra 1% a year for houses and 2% a year for flats (the rate at which tenants accrue entitlement to 'right to buy' discounts), up to a maximum of the RTB discount less 10%.
- Under Mr Rifkind's scheme at the same rate but without limit.

- Under Mr Ridley's scheme an extra 2% a year in all cases without limit (but from a substantially lower starting point).

In addition, under flexi-ownership the tenant would be encouraged to purchase additional tranches of equity with a 1% bonus for each 5% purchased.

Special Scheme for the Elderly

Under Mr Walker's scheme it would be possible to give preferential terms to the elderly. They would be treated as other purchasers but as in the original flexi-ownership scheme they would not be required to take out a mortgage. In order to avoid a 'cliff-edge' at retirement age, the amount purchased by older tenants below retirement age would be determined by capitalising their rent minus £5 over the period until they retired.

2. FINANCIAL ASSESSMENT

The table attached to the note by officials shows the year by year costs and net present value of the various schemes in two cases. Case A assumes little switching from RTB to RTB whilst case B assumes considerable switching. Neither of these cases is intended to be a forecast, rather they are the two ends of possible spectrum.

However they show that in net present value terms Mr Walker's scheme is clearly superior. It is the only scheme that in both cases, even if one assumes that much of the housing is replaced by new publicly subsidised housing, has a net present benefit to the public sector. This is essentially because this scheme is the only one under which the public sector retains a permanent equity stake and therefore eventually has a receipt when the house is sold. By contrast Mr Rifkind's scheme has a net present cost in

all circumstances and we suggest that it should be ruled out in its present form on those grounds alone.

The picture on short term costs is less clear. Mr Rifkind's is clearly worst under case A whilst Mr Ridley's and Mr Walker's schemes are broadly level pegging. Under case B Mr Walker's scheme is clearly worst in the early years, Mr Ridley's scheme is best and Mr Rifkind's somewhere in between. Since these cases do not represent a forecast of what is intended to happen we recommend that you do not place too much weight on them.

3. MARKET FOR SUCH A SCHEME

We only have figures showing the potential market for such a scheme in England. These show that:

- about 36% of local authority tenants, 1.4 million, pay full rent, and could therefore take advantage of the scheme without adding to their weekly outgoings;
- a further 30%, 1.2 million, elderly tenants on full or partial housing benefit, would be eligible for Mr Walker's preferential scheme.

So in total some two thirds of tenants are covered by these proposals.

However there remain some 24% (one million) of local authority tenants on full housing benefit and some 10% (400,000) on partial housing benefit, most of whom are unlikely to be attracted by the scheme because they would be significantly worse off after meeting mortgage payments.

4. POINTS FOR DECISION

The note by officials contains a list of points for decision. In essence, any scheme should be designed to minimise diversion from full 'right to buy', should encourage tenants to purchase additional equity and should not be resented by those who have bought under 'right to buy'. We recommend point by point as follows.

Develop an RTM scheme

Agree that a 'rents to mortgage' scheme be developed further. This would be an attractive scheme for any tenant paying rent in full.

Initial Discount

The initial discount (ie the size of the equity stake owned outright by the purchaser) should be 10 percentage points lower than the equivalent right to buy discount. This should reduce switching from RTB. Mr Rifkind's scheme gives the same discount as RTB whilst Mr Ridley's is both complicated and would not fit easily with a special scheme for the elderly which we suggest below you support.

Bonus Points

The scale of bonus points should be as proposed by Mr Walker and Mr Rifkind. This will ensure that on this score tenants are neither encouraged to switch from RTB or to remain as tenants so as to build up more RTB discount points.

Encouraging the purchase of extra equity

There should be extra bonus points to encourage equity purchase, as in Mr Walker's scheme.

Maximum Discount

There should be a cap on the total discount given. Under Mr Rifkind's and Mr Ridley's schemes tenants eventually acquire all the equity in their house. This would both encourage diversion from right to buy (probably almost 100% in Mr Rifkind's case) and be resented by those who had bought under traditional right to buy.

Public Sector Charge

The public sector charge should be indexed. Otherwise inflation acts as a scale of additional discount that is variable from area to area and unpredictable. A 1% rise in the value of a house would increase the purchaser's equity stake by about 1%.

The landlord (local authority or Scottish Homes) should hold the public sector charge. There is no precedent for confiscating local authority assets - UDC's and HAT's are both required to pay market value. However, we suggest that further work should be done on the best way of administering the scheme. There is much to be said for the Housing Corporation, or a private trust set up for the purpose, being responsible for promoting the scheme and organising the administration using building societies as its agents, as in Mr Walker's scheme.

Social Security

Tenants who are not working should not have their RTM payments met through income support. But employed tenants who opt for RTM and subsequently require help should be treated on all fours with other owner occupiers.

Elderly Tenants

We recommend that you support Mr Walker's proposal to give special terms to elderly tenants. Very few of them exercise conventional 'right to buy' so there would be little diversion. Moreover, it would give these tenants a way of acquiring an asset that they could pass on to their children, possibly enabling them to get on the housing ladder and avoid dependency.

5. TENANTS ON HOUSING BENEFIT

One of the most exciting features of the original flexi-ownership scheme, largely missing from the revised schemes, was that it provided a way of ending dependency on housing benefit. This approach carried some risks, for example that tenants would fail to maintain their houses or that they would sell them and dissipate the proceeds. None of the present schemes is likely to be attractive to tenants in this group although those paying quite a large proportion of their rent from their own pockets might be able to afford RTM.

We therefore recommend that officials should be asked to extend the scheme so that it will appeal to tenants on housing benefit. This might be done as follows:

- base the RTM mortgage on rent net of housing benefit less £5 a week;
- subject a minimum payment of £5 a week (equivalent to a mortgage of about £3,000);
- base the assessment of net rent on what the tenant had actually paid over the previous year.

Under such a scheme any tenant paying £10 a week or more in rent from his own pocket could opt for the scheme and spend up to £5 a week on maintenance without increasing his weekly outgoings. Any other tenant on housing benefit could also come into the scheme for £5 a week and some might be prepared to afford this in return for the capital stake. But it would be unlikely to appeal to the reckless because it would leave them less for other expenses. There are already adequate safeguards under social security and homelessness legislation against tenants selling their houses becoming a charge on the state.

6. TIMING

Mr Ridley, and perhaps the Chief Secretary, may argue that we should delay any scheme until 'right to buy' sales tail off. In practice, even if there were legislation in the next session, it will be April 1990 before a scheme could be introduced with a delay until April 1991 if legislative time cannot be found until the 1989/90 session.

The 'rents to mortgage' scheme extended to give special terms to the elderly and those on housing benefit is worthwhile in its own right, not merely as a means of sustaining capital receipts. Moreover, the schemes can be 'fine-tuned' to reduce diversion from 'right to buy'.

We therefore recommend that work on the scheme should proceed with a view to legislation as soon as possible.

7. HOUSING ASSOCIATIONS

In your last meeting you asked for a paper on the future role of housing associations. Your concern was that before going ahead with a 'rents to mortgage' or 'flexi-ownership' scheme we should be clear about we were going to meet the housing needs of the poorest members of the community. The

housing associations already fulfil this role and it could be enhanced and made more flexible in future.

We recommend that you repeat this request.

8. CONCLUSION

We recommend that:

1. You agree to further work on a 'rents to mortgage' scheme with the features outlined in section 4 above.
2. There should be a special scheme for the elderly as proposed by Mr Walker.
3. Officials should also work up a scheme targetted on tenants on full or partial housing benefit allowing them to pay £5 a week towards a mortgage under an extension of a 'rents to mortgage' scheme.
4. This work should proceed with a view to legislation at earliest practicable opportunity.
5. You repeat your request for a paper on the future role of housing associations.

Peter Stredder

PETER STREDDER

CONFIDENTIAL



10 DOWNING STREET
LONDON SW1A 2AA

*File No
a copy
Giffiths*

From the Private Secretary

18 July 1988

Dear Roger,

A NEW FINANCIAL REGIME FOR LOCAL AUTHORITY HOUSING

The Prime Minister was grateful for your Secretary of State's minute of 14 July and the enclosed draft consultation paper.

The Prime Minister agrees with your Secretary of State's conclusion that the Exchequer should take on the full responsibility of meeting the need for subsidy. She is also content with the proposed publication of the consultation document before the House rises, subject to the action in hand on the exact wording of paragraph 25 and to re-drafting of the last sentence of paragraph 16 to make clear that there will not necessarily be a direct and full transfer between the Exchequer and the community charge payer.

I am copying this letter to the Private Secretaries to the members of E(LF).

*Yours,
Paul*

PAUL GRAY

Roger Bright, Esq.,
Department of the Environment.

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Ho



CONFIDENTIAL
DEPARTMENT OF HEALTH AND SOCIAL SECURITY

Richmond House, 79 Whitehall, London SW1A 2NS

Telephone 01-210 3000

CEPU

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

NBRM & min steps.
REC 6
18/7

8 July 1988

R. A. [unclear]

NEW FINANCIAL REGIME FOR LOCAL AUTHORITY HOUSING

Thank you for the copy of your minute of 14 July to the Prime Minister.

The draft consultative paper is in accordance with what we agreed, and I am content with it subject to some minor drafting changes - my officials have let yours have a note of these.

You will appreciate, however, that the proposal to subsidise housing benefit expenditure from housing surpluses will be seen by local authorities as a radical departure from the previous practice of the Exchequer meeting virtually all the cost, and will be strongly resented. Though the draft paper probably does what is possible to present this aspect positively, there seems little doubt that authorities will grasp the implications and we must be prepared for their reaction.

I must also raise one or two points about the precise way in which the new arrangements will work. As I understand the proposals, subsidy for rent allowances and for rent rebates in Scotland would continue to be paid from a DHSS Vote; rent rebate subsidy in England and Wales would be carried on the Votes of your Department and the Welsh Office. Despite this different treatment, so long as housing benefit remains a national benefit with national rules for eligibility, it would not be sensible to have different rules for the subsidies paid to authorities in different parts of the country for paying the benefit. I therefore consider it essential that the level of these subsidies and the structure of selective incentives should be uniform across the country and across the different types of housing benefit. It follows that, while my Department keeps policy responsibility for the benefit rules, it should continue to have policy responsibility for these subsidy issues - of course, in full consultation with you and the territorial departments, and the Treasury. I would be grateful for your agreement on this point.

Our experience of operating the present system has been that the proper scrutiny of subsidy claims can involve a host of detailed questions about the precise application of the benefit rules. I therefore also regard it as essential that my Department should be fully involved in the scrutiny of individual claims for subsidy,

E.R.

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that we should continue to have direct access to local authorities on any queries, and that they should be free to approach us direct for guidance and advice on issues relating to rent rebate subsidy. Once again, I would be grateful for your agreement. I recognise that the arrangements will have to be consistent with your Department's Vote accountability for the expenditure under the new regime, and that this may require some form of agency relationship between us. I understand our officials are exploring these issues.

Subject to these points, I am content for the consultative document to be published.

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

A handwritten signature in dark ink, appearing to read 'John Moore', written in a cursive style.

JOHN MOORE



10 DOWNING STREET

Paul

Attached is a page from
the DOE consultation document
on local authority housing.

Peter Stredder has agreed
a new form of words for
para. 4p which he didn't
like.

He's not sure if you
will now take this up with
the DOE.

Paul

1977.

16. The effect of these proposals will be to ensure a smooth transition to the new regime. For the tenant, the immediate effect should be indistinguishable from what would have happened if the current system had remained in force. For the community charge payer the immediate effect will be a saving from the ending of rate fund contributions, ^{offset to the extent that RSA gives support to} ~~as the equivalent~~ _{those contributions; there will be a smooth transition to this through the operation} ~~cost is transferred to the Exchequer.~~ _{of the community charge safety net.}

17. For future years authorities will be entitled to subsidy to make good the deficit which would arise in the HRA if the housing were managed with reasonable efficiency. Actual changes in loan charges (subject to rules on admissible costs for new borrowing, and on the authority's "pool" rates of interest for internal borrowing), in the number of tenants receiving rent rebates and in the cost of those rebates will also be reflected in the calculation of subsidy. Account will also be taken of changes in the size of the local authority stock. As under the present system, appropriate assumptions will be made each year about movements in rent levels and in management and maintenance expenditure.

18. The Government will also consider whether more should be done to encourage authorities to reflect the value or popularity of different dwellings in establishing rent differentials between properties in the same area. This, however, concerns local authority practice rather than the subsidy regime.

19. HPA Subsidy will be designed to meet the notional deficit on the account, irrespective of an authority's actual decisions on rents and maintenance, or its managerial efficiency. This will ensure direct financial incentives to efficient management because any inefficiency will put pressure on rents or on maintenance expenditure and other aspects of service to the tenants, while any increase in spending on maintenance or management will not in itself bring about reductions in subsidy.

PRIME MINISTER

FLEXI-OWNERSHIP AND RENTS TO MORTGAGES

You may like to take a first look over the weekend at the paper prepared for next Thursday's meeting of the small Ministerial group on housing.

This reflects a lot of work by Richard Wilson in seeking to pull together the competing ideas of the Welsh Office, Scottish Office and Department of the Environment on variants of the original Peter Walker scheme. He has managed to establish a lot of common ground, but as you will see, we still have three possibilities to pursue.

RLC6.

PG

15 July, 1988.

PRIME MINISTER

mf

NEW FINANCIAL REGIME FOR LOCAL AUTHORITY HOUSING

Mr. Ridley's minute of 14 July seeks agreement to a draft consultation paper that he would like to issue before the House rises.

The draft reflects the new ring fencing regime thrashed out during the Spring. Mr. Ridley's covering minute presents a strong case for rejecting the possibility of a continued local ~~long~~ contribution towards the new style housing subsidy.

Peter Stredder has studied the draft and is in general content with it. He is still pursuing one query concerning the last sentence of paragraph 16, which says boldly that the effect of the ending of rate fund contributions will be a saving for community charge payers, matched by a cost to the Exchequer. It is not clear this will necessarily occur, as there could be a reduction in Exchequer grant via the impact of GREs. Peter will be pursuing this further with the Department of the Environment on Monday.

Content to agree:

1. That the Exchequer should take full responsibility for meeting the need for subsidy?
2. To publication of the draft consultation document, subject to resolution of the point in paragraph 16?

SPG

PG

15 July, 1988.

Y



CABINET OFFICE

70 Whitehall London SW1A 2AS Telephone 01-270

A copy
LBP

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P 03185

P Gray Esq
Private Secretary
10 Downing Street

15 July 1988

Dear Paul,

FLEXI-OWNERSHIP AND RENTS TO MORTGAGES

At the discussion in the small group of Ministers on 26 May, the Cabinet Office were asked to prepare a further report on the flexi-ownership scheme. We were subsequently asked to include the Secretary of State for Scotland's Rents to Mortgages scheme in our work.

I attach a paper which fulfils these remits, as a basis for discussion at the next meeting of the Ministerial Group on Thursday 21 July. It has been prepared in consultation with the Departments represented on the Group.

I am copying this letter and the paper to the private secretaries to the Secretary of State for Wales, the Secretary of State for the Environment, the Secretary of State for Scotland, the Secretary of State for Social Services, the Chief Secretary and the Minister for Housing and Planning, and to Mr Peter Stredder (No. 10 Policy Unit).

Yours,

Richard

R T J WILSON

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HOUSING POLICY

FLEXI-OWNERSHIP AND RENTS TO MORTGAGES

Note by the Cabinet Office

At the Group's meeting on 26 May we were asked to prepare a further report on the flexi-ownership scheme. The Secretary of State for Scotland subsequently minuted the Prime Minister about his Rents to Mortgages (RTM) proposal, and we were asked to include this in our work. The Prime Minister expressed the hope that we would be able to put forward a set of proposals for consideration by Ministers.

2. Officials have considered three alternative schemes:

i. a revised flexi-ownership scheme which now combines a Rents-to-Mortgages scheme for people paying rent with a flexi-ownership scheme for all council tenants over 60;

ii. the Rents to Mortgages scheme put forward by the Secretary of State for Scotland which is directed only at people paying rent, and is designed in particular for Scotland;

iii. an alternative Rents to Mortgages scheme put forward by officials of the Department of the Environment, which is designed to reduce diversion of conventional Right-to-Buy sales in England.

3. All three schemes have important features in common. In particular they would all allow tenants who are currently paying rents out of their own pockets to convert those rents into mortgages and to become home owners on favourable terms.

4. They diverge however in two important respects.

5. First, the revised flexi-ownership scheme would allow all council tenants over 60, including those who receive rent rebates under Housing Benefit, to own their own homes without having to take out a mortgage. The other schemes would not incorporate this feature.

6. Second, each of the schemes strikes a slightly different balance between maximising the number of tenants moving into owner occupation on the one hand, and minimising diversion from the conventional Right-to-Buy on the other. There are also some secondary policy points which need to be settled.

full rents?

CONCLUSION

7. These points are set out in more detail, together with a financial appraisal, in the note by officials, attached. Ministers are invited to consider:

- i. whether there should be further work on a Rents to Mortgages scheme to encourage home ownership among tenants paying full rents, on the lines of paragraphs 2 and 3 of the note attached. If so, guidance will be needed in due course on the issues set out in paragraphs 5 to 9 of the note;
- ii. whether this work should include an exemption for tenants over 60 from the need to take out a mortgage, so as to make it easier for them to become owner-occupiers, on the lines of paragraph 10;
- iii. whether such a scheme should be introduced as soon as possible, or delayed until Right-to-Buy sales decline, as discussed in paragraphs 14 and 15.

CABINET OFFICE

15 July 1988

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HOUSING POLICY

FLEXI-OWNERSHIP AND RENTS TO MORTGAGES

Note by Officials

SCHEMES CONSIDERED

The official Group have considered three alternative schemes designed to provide new home ownership opportunities for council tenants:

i. a revised flexi-ownership scheme, designed to meet the concerns expressed at the Prime Minister's meeting. Tenants would now be required to convert their existing rent payments into a mortgage. But tenants over 60 would be exempt from this requirement, so that they could still move to home ownership without taking on any financial liability except the cost of repair and maintenance. Full details are at Annex A;

ii. the Rents to Mortgages (RTM) scheme put forward by the Secretary of State for Scotland. The scheme is designed to maximise home ownership in the Scottish context, where take up of the conventional Right-to-Buy (RTB) has been modest. It therefore provides generous incentives. Full details are at Annex B;

iii. an alternative Rents to Mortgages scheme put forward by DOE officials. This is designed to reduce diversion of conventional RTB sales into RTM in the English context, where RTB sales are currently buoyant. Full details are at Annex C.

The main features of the three schemes are compared in Annex D.

WHAT THE SCHEMES HAVE IN COMMON

2. All three schemes have important features in common. In particular, they all aim to maximise home ownership among those tenants who currently pay their rents in full from their own pockets, by allowing them to convert their rents into mortgages. Other tenants could participate if they were willing and able to make the same financial commitment, eg from savings or with the help of relatives. But none of the schemes would aim to reduce the number of tenants currently dependent on housing benefit except in the case of the older tenants who would be covered by the flexi-ownership scheme.

What happens if they can no longer pay rents in full

3. Apart from the treatment of older tenants, the three schemes all include the following features:

i. tenants would be eligible after 2 years in the council rented sector, as for conventional RTB;

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ii. a tenant wishing to participate would cease to pay rent but would take out a mortgage with repayments equal to his current rent, minus £5 per week to allow for maintenance costs, or make an equivalent payment out of savings;

iii. the resulting capital sum would purchase a proportion of the dwelling, to which would be added all or part of the tenant's RTB discount;

iv. a charge equal to the remaining equity in the dwelling would be held by the Housing Corporation or the previous landlord, and would be repayable on disposal;

v. the former tenant would benefit from additional bonus equity points for each year he remained in the dwelling, possibly subject to some limit (eg the maximum RTB discount);

vi. the former tenant would be responsible for repair and maintenance of the dwelling, and would covenant to keep it in good repair.

4. Ministers are invited to decide whether a rent to mortgage scheme with these general characteristics should be developed further.

ISSUES FOR DECISION

5. If Ministers wish this further work to be done, there are a number of issues on which it would be helpful to have guidance. They relate mainly to the balance which should be struck between maximising the number of tenants moving into owner occupation on the one hand, and minimising diversion from the conventional RTB on the other.

6. First, the size of the initial discount. A generous scheme, designed to maximise take up would allow tenants their full RTB discounts. A scheme which was designed to avoid diversion from RTB - and thus to avoid reducing RTB receipts - might give a smaller initial discount, either 10 percentage points lower as under flexi-ownership or a percentage of the RTB discount as under the Department of the Environment variant of RTM. Ministers will wish to consider how generous the initial discount should be.

7. Second, the scale of equity bonus points. A generous scale of bonus points - eg 2 percentage points per annum - could also help to maximise take up. If the scale automatically progressed to 100% of the equity many RTM tenants might achieve full home ownership in due course. That could be desirable in policy terms. But both features could encourage diversion from conventional RTB. They could also be seen as unfair by existing owner occupiers, RTB purchasers and tenants on housing benefit. There might therefore be a case for a less generous bonus scale, and for some limit, eg the maximum RTB discount, as with the flexi-ownership scheme. Ministers will wish to consider the rate at which bonus equity points should accrue, and whether they should be subject to a limit.

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8. Third, the basis of the public sector charge. All the schemes involve a public sector body holding a charge on the property reflecting the proportion not purchased by the tenant. A charge fixed in cash, as under the Scottish Office RTM scheme, would allow the tenant to benefit from the full increase in the market value of the dwelling. A charge indexed to house prices (as under flexi-ownership) or fixed as a percentage of the sale price (as under the DOE version of RTM) would be less generous, and would also yield public expenditure benefits. Ministers are asked to consider whether the charge on the property should be fixed or indexed.

9. Ministers may also wish to provide guidance on the following issues:

i. body to hold public equity stake. Under flexi-ownership the Housing Corporation would receive both the original capital payment from the tenant and the equity share payable on sale of the dwelling. This would bring the use of the receipts under effective Government control, and would allow them to be directed to new building in the housing association sector. But it would be a departure from the RTB treatment, under which receipts remain with the landlord. It could be expected to provoke bitter complaint from local authorities, who would view it as tantamount to confiscation. And in England it could cause major administrative problems. Both the other schemes would therefore leave the receipts and charge with the landlord (the local authority or Scottish Homes). Ministers will wish to consider whether capital receipts should flow to the landlord or to the Housing Corporation;

ii. eligibility for social security benefits. Under the original flexi-ownership scheme the flexi-owner would have become ineligible for social security assistance since he would have paid neither rent nor mortgage interest. But the new schemes all involve tenants taking out a mortgage. Under existing rules, they would receive help with their mortgage interest payments if they subsequently became eligible for income support, eg through unemployment. Existing income support claimants might also be permitted under DHSS rules to take up RTM since their mortgage payments would be less than their existing rents, reducing the overall burden of benefits. Ministers will wish to consider whether further work should be commissioned on the possibility of preventing abuse of benefits. (No allowance for additional income support costs has been made in the financial appraisal at Annex D.)

Special scheme for older tenants

10. One objective of the original flexi-ownership scheme was to reduce the dependency culture and the poverty trap by removing tenants from the scope of housing benefit. All tenants were therefore eligible, whether or not they were paying any rent from their own pockets. However, concern was expressed that flexi-ownership might be abused by a minority of tenants, and that it

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might attract some tenants who could not meet the costs of maintaining their dwellings. The Welsh Office have therefore revised the scheme so that only older tenants (within 5 years of retirement) would be able to move to home ownership without incurring mortgage costs. They would be the least likely to wish to abuse the scheme, and the most likely to benefit from help from relatives with maintenance or to have savings which would help them to cope. To maintain equity, younger tenants would not be required to take out mortgages with periods extending beyond the retirement age. A tenant aged, say, 54 would thus purchase less of the equity than under RTM, and receipts would be reduced.

11. The main advantages of a special scheme for older tenants are:

- i. it would provide home ownership opportunities for a much larger group than RTM alone. Roughly 50% of tenants on full housing benefit and 85% of tenants on the taper would qualify. It would also help many older tenants with incomes above benefit levels who would find it difficult to get a mortgage;
- ii. it could substantially reduce both the costs and caseload of the rent rebate system. (Many former tenants would however remain eligible for community charge rebates);
- iii. there could be substantial public expenditure savings;
- iv. it would give older council tenants an asset which they could pass on to their heirs, potentially reducing dependency in the next generation.

12. The main disadvantages are:

- i. it could attract some older tenants who were incapable of managing repair and maintenance, and who could not get help from others, and could therefore increase the number of elderly people in poor housing, with eventual pressure for Government assistance;
- ii. it would be out of line with RTB where 52% of purchasers have been over 45 and have paid the full RTB price;
- iii. the main financial benefits could accrue to the heirs of elderly tenants rather than to the tenants themselves;
- iv. it would remove from the public sector the houses most likely to become available for re-letting in the short to medium term, and increase the pressure to build new dwellings for letting at affordable rents.

13. Ministers will wish to consider whether any flexi-ownership or RTM scheme should provide special home ownership opportunities for older tenants. If not, one option would be to hold this possibility in reserve for the present. The Government could first introduce an RTM scheme for tenants paying full rents (including some older tenants). A decision on extending the scheme to older

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tenants who cannot afford a mortgage or equivalent capital payment could then be taken later in the light of experience.

Timing

14. If Ministers decided to proceed with flexi-ownership or another rent to mortgage scheme, a decision would be needed about the timing of its introduction. Early introduction could be expected to maximise the number of tenants moving into owner occupation in the next few years. But it could also lead to a substantial level of diversion of sales from the conventional RTB. That could have short term consequences for public expenditure, or alternatively for public sector investment in housing. RTB sales in England are currently buoyant, and the forecast of capital receipts in 1988/89 has recently been increased by £1 billion to £2.3 billion. There might therefore be a case for delaying the introduction of a new scheme until conventional sales start to tail off: even public discussion of a new proposal could jeopardise the expected flow of RTB receipts.

15. A further consideration is the extent to which a rent to mortgage scheme might undermine other new Government housing policies such as tenants' choice and financial incentives for council tenants to move. This problem, and possible ways round it, are discussed in Annex E.

16. Ministers will wish to consider whether a new scheme should be introduced as soon as possible, or delayed until RTB sales decline.

FINANCIAL IMPLICATIONS

17. The results of a financial appraisal of the three schemes are set out in Annex D. The PSBR effects of each scheme, both in the early years and on the net present value (NPV) basis, have been assessed on the basis of two alternative assumptions about tenants' behaviour. Case A assumes that tenants will be heavily influenced by the prospect of capital gains from home ownership: case B that tenants will be more concerned by short term effects on cash in hand. Neither is intended as a forecast of what will actually happen: they simply illustrate the range of possibilities. In both cases the schemes are evaluated with and without an assumption about the replacement of stock in the social rented sector.

18. The financial appraisal can be summarised as follows (in £ million):

	Year 1	Year 2	Year 3	Year 7	NPV
<u>CASE A</u>					
<u>Without Replacement</u>					
Flexi-ownership	-239	-733	-765	-894	-19,365
RTM Scottish	+156	-868	-607	+307	+873
RTM DOE	-220	-829	-719	-187	-5,092
<u>With Replacement</u>					
Flexi-ownership	-239	-672	-543	-18	-6,441
RTM Scottish	+156	-851	-544	+817	+5,105
RTM DOE	-220	-819	-689	+53	-697
<u>CASE B</u>					
<u>Without Replacement</u>					
Flexi-ownership	+501	+149	+126	-29	-9,445
RTM Scottish	+494	+12	+97	+476	+2,692
RTM DOE	+409	-96	-18	+284	+550
<u>With Replacement</u>					
Flexi-ownership	+501	+179	+238	+432	-2,687
RTM Scottish	+494	+20	+125	+733	+4,941
RTM DOE	+409	-90	+8	+476	+4,224

PLEASE NOTE:

a MINUS sign indicates a SAVING;
a PLUS sign indicates INCREASED spending.

Cabinet Office
15 July 1988

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FURTHER DEVELOPMENT OF THE FLEXI-OWNERSHIP SCHEME

1. The Prime Minister has asked that possibilities for improving the flexi-ownership scheme should be examined in the following areas:

—————
Financial Impact

- minimising the potential diversion of conventional right to buy sales into flexi-ownership;
- improving the short term impact on public expenditure;

Discouraging Abuse

- discouraging people from taking up council tenancies solely in order to become eligible for flexi-ownership;
- ensuring that people who become flexi-owners do not later reapply for housing benefit;

Repair

- ensuring that flexi-owned dwellings are repaired and maintained;

Portable Flexi-ownership

- the possibility of introducing some form of portable flexi-ownership for tenants of housing associations;

Flats

- making the scheme attractive to people in flats, in particular despite service charges.

Financial Impact

2.1 The following two modifications to the original scheme are proposed:

1. the flexi-owner's initial equity entitlement to be 10 percentage points less than his right to buy discount entitlement, as suggested by the Prime Minister;

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ii. All tenants except those nearing pensionable age would be required as a condition of entry into the flexi-ownership scheme, to purchase extra equity from the outset. The amount to be purchased will be calculated on a "rent into mortgage" basis: the sum that can be borrowed on a private sector mortgage with repayments equivalent to the former rent payment minus £5 per week. No-one would be asked to take out a mortgage with repayments extending beyond pensionable age: so the equity purchase required of a man aged 55 would be less than that for a man of 45 who had been paying the same rent, since the mortgage repayment period would be shorter. Tenants within 5 years of pensionable age would be wholly exempt. This is designed to make flexi-ownership more attractive to older people who have been paying rent for some time and who could not get mortgage finance. No such special provision is made for older tenants exercising their right to buy. Older tenants who have been unable to afford to exercise RTB will have a route to home-ownership for the first time. Although it will be the norm to finance the requisite equity purchase by "rent into mortgage" it will of course be open to tenants who prefer to do so to find the sum direct from savings. Such obligatory equity purchase would qualify for bonus at the rate of 1 percentage point for every 5 percentage points purchased, in the same way as equity purchased voluntarily.

2.2 Receipts from the scheme could be significantly further improved in the early years, if that were thought desirable, by selling part of the Housing Corporation's equity entitlement (which is in effect a portfolio of index-linked mortgages) to private sector institutions. Adopting this means of improving cash flow would however result in some diminution of the net present value of the scheme, because of the profit margin required by financial intermediaries.

Discouraging Abuse

3.1 The requirement to take out a mortgage to finance equity purchase should be sufficient to discourage the young and feckless from applying for council tenancies purely as a route into flexi-ownership.

3.2 It would not be practicable to ensure that flexi-owners (or indeed those who have exercised conventional right to buy) are debarred permanently thereafter from eligibility for housing benefit: there would have to be too many exceptions on grounds of genuine hardship. However, Ministers' principal

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Concern was that a flexi-owner might squander the proceeds of selling his house, and then go back on to benefit. Such an abuse is already guarded against in existing DHSS regulations: any person who has recently had capital in excess of the permitted disregard limits will be debarred from eligibility from both housing benefit and income support if it is judged that the capital has been deliberately made unavailable (eg given to relatives) or has been dissipated on a lifestyle beyond that which the claimant would normally be expected to have. It is also the case that a person who voluntarily sells his house and becomes homeless would be regarded as having rendered himself homeless intentionally and would not have any claim to rehousing by the local authority.

Repair

4.1 The scheme has a built in financial incentive to the flexi-owner to keep his house in repair: the sum which the flexi-owner owes to the Housing Corporation will be indexed up in line with the average increase in local house prices, and will not be affected by the price the flexi-owner actually receives for his house. Thus if a flexi-owner neglects his house so that its value fails to keep up with local house prices, the entire financial loss on sale will be borne by him, not by the Housing Corporation. This point will need to be spelt out very fully in promoting the scheme, so that flexi-owners realise that if they do not carry out repairs it will be the value of their own capital stake which they are eroding.

4.2 It is also the case that flexi-owners should have the necessary resources to carry out proper routine maintenance of their homes: the annual sum necessary for this is considered to be about £200. Those flexi-owners who are being required to take out a mortgage will be left with more than this amount in their pocket by comparison with the rent they have been paying. Even those elderly flexi-owners who have previously been on full housing benefit are coming into the scheme on a voluntary basis and in full knowledge of their repairing obligations: they may reasonably be taken to have assured themselves that they will in practice have the necessary resources. The resources available to them may be either in the form of capital savings (a tenant on full housing benefit may have up to £8,000) or via help from relatives (who may become co-owners of the house under the extension to the Right Buy proposed by the Secretary of State for Wales).

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4.3 Thus flexi-owners will have both the incentive and the means to maintain their homes. As an additional safeguard, however, against the possibility of abuse by some individuals it is proposed that the flexi-owner should be obliged to covenant to the Housing Corporation to maintain his house in a reasonable state of repair and decoration. Such a covenant is required in all RTB leases and by most building societies for conveyances involving a mortgage, but is not thought to have much effect. But it would be open to the Corporation's agents to seek to take action to enforce the covenant where it could reasonably be considered that the tenant had wilfully neglected the maintenance of his house. In extremis, if the flexi-owner refused to undertake the repairs, the Corporation would become entitled to immediate repayment of charge on the property, and this would be enforceable via the County Court. In order to ascertain whether there had been a breach of the repairing covenant, the Housing Corporation's agents would need to be empowered to make reasonable enquiries and to inspect the property. It is not suggested that this power should be made use of on a regular basis: the administrative cost of doing so would far outweigh any likely gain in the condition of the housing stock, and a "Big Brother" approach would undermine the political success of the scheme. Extreme cases of the kind envisaged here are likely to come to light in the first instance via complaints from the neighbours or from the local authority.

Portable Flexi-ownership

5. Under a "portable flexi-ownership" scheme, housing association tenants would not have an absolute right to flexi-ownership, but would be able to put their names down on a waiting list. Rather than fund new housing association development via the Housing Corporation, existing tenants on the flexi-ownership waiting list would be put in funds to buy a house for sale in the open market up to a maximum cost of say 70 to 80 per cent of housing association new build. They would owe a debt to the corporation on exactly the same equity sharing basis as for ex-local authority flexi-owners. Those who had been paying a significant proportion of their rent out of their own pocket would also be required to put down a cash sum for immediate equity purchase from the Corporation (probably financed by private sector mortgage) in the same way as local authority tenants. Meanwhile, the Housing Corporation would not be allowed to finance new housing association developments in an area where there were existing tenants on the flexi-ownership waiting list. The scheme would be

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cash limited and would be in partial substitution for the Corporation's development programme, not in addition to it. The overall effect of such a scheme could be to meet demand for new tenancies by speeding up the rate at which existing housing association dwellings changed hands, rather than through the provision of new units. Alternatively, a scheme of cash incentives to move out to buy could be used to similar effect.

Flats

6.1 The equity entitlement scale for flats will follow the Right to Buy scale, less 10 percentage points. Accordingly it will run from a minimum 34% increasing by 2% per annum to a maximum of 60%. At no time will the amount of equity held by the flexi-owner be allowed to drop below 25%.

6.2 As a means of making flexi-ownership attractive in flats, it is proposed to give the flexi-owner an absolute entitlement to have that part of his annual service charge in excess of £200 paid by the Housing Corporation. Such payments would be deducted from the flexi-owner's equity stake. They would not be made automatically: the flexi-owner would have to request part payment of his service charge year by year and would be made fully aware of the amount of equity that he was foregoing as a result. The flexi-owner would eventually have to take the burden of service charges on his own shoulders (bearing in mind that his equity share is not to be allowed to drop below 25% he cannot go on selling equity to the Corporation forever). But he could choose in the early years to draw on the growth in his equity (2% per annum automatic build up to the scale maximum of 60%) to help meet the balance of his service charge until the real cost of his mortgage has diminished significantly.

6.3 The proposal described above is not necessarily the only way of delivering effective help with service charges. If it is decided to proceed with flexi-ownership, further consideration could be given to alternatives, bearing in mind the need to minimise both administrative complexity and switching from the Right to Buy.

6.4 Any significant take-up of flexi-ownership in flats is likely to improve cash flow in the early years of the scheme, while leaving the net present value of the schemes unaffected. (This is because the Right to Buy switching which

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would take place has a much smaller effect in flats and is heavily outweighed by additional rent into mortgage receipts in the early years. However in later years there are heavier outgoings and fewer savings than in houses. Accordingly net present value of the modified scheme of flexi-ownership in flats is thought to be broadly neutral).

6.5 A recapitulation of the modified scheme of flexi-ownership now proposed is set out in the appendix.

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RIGHT TO BUY FLEXI-OWNERSHIP

1. Eligibility

Eligibility will be as for the Right to Buy, save that it will not extend to housing association tenants.

2. Financial position of new flexi-owner

The new flexi-owner will cease to pay rent, and will pay his landlord £1 for the conveyance to him of the freehold or long leasehold. He will however owe a sum of money, equivalent to a proportion of the value of the house, to the Housing Corporation. On transfer the house will be valued on the same basis as for the Right to Buy. The share of the equity held by the flexi-owner will be related initially to his Right to Buy discount entitlement: he will be credited with a share equal to his Right to Buy discount minus 10 percentage points. Thus a tenant at the 5 year point on the RTB discount scale (35% after 5 years in a house) would initially receive 25% of the equity. The sum owed to the Housing Corporation by the flexi-owner will in effect be a form of index-linked maturity mortgage. No interest is payable, and no capital is required to be repaid while the house is used as a sole or main residence by the flexi-owner or his heirs. However the capital sum owed will be indexed up annually in line with the movement of local house prices. The entire capital sum will become due when the house is sold (or used for letting or as a second home). Tenants will be required to purchase additional equity on entry to the scheme. The amount to be purchased will be that which can be funded by a private sector mortgage which can be repaid at a rate equal to previous weekly rent minus £5. Tenants with less than 5 years to go to pensionable age will be exempt from this requirement. Younger tenants would not be required to take out mortgages with periods extending beyond retirement age.

3. Benefit Entitlement

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

4. The Housing Corporation's equity share

The Housing Corporation will make no payment to the local authority in respect of its share of the equity (the local authority will be compensated through central government subsidy for the net rent loss which it suffers when a house is transferred into flexi-ownership)

Additional equity purchase by flexi-owner

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

6. Automatic build-up of equity entitlement

In order to encourage tenants to move immediately into flexi-ownership rather than stay on as tenants accumulating more discount, it is further proposed that the flexi-owner would be credited with one additional equity point for each year that he stays in the house, up to a maximum of 50% in houses. In flats, the build-up would be at a rate of 2% per annum to a maximum of 60%. N.B. Either in houses or in flats, the flexi-owner will only be able to achieve outright ownership by additional equity purchase.

7. Administration

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

When the sum accumulated had increased to the current purchase price of 0.5% share of the equity, the flexi-owner's equity stake would automatically be increased: the purchase price being deducted from the balance in the account and remitted to the Housing Corporation. More work is needed to assess whether Exchequer support will be required for the administrative costs of the scheme, whether to the Housing Corporation or to building societies or banks.

8. Repairs

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

- (i) to borrow commercially against the equity which he holds in the house (in effect, to take out a second mortgage, the sum owed to the Corporation being the first charge on the freehold). If the flexi-owner were entitled to income support he could get help with the interest on such borrowing, with a consequent public expenditure cost (see para 3.)

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

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

9. Job Mobility

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

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

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

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

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

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

10. Flexi-ownership for tenants in flats

It is proposed that the flexi-ownership scheme should apply to flats in much the same way as to houses; the initial equity share and rate of equity build up will follow the more generous RTB discounts available for flats but lay 10 percentage points behind. The distinctive feature of the scheme as applied to flats will be that flexi-owners will be entitled to sell equity to the Housing Corporation each year to fund that part of their service charge in excess of £200.

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RENTS TO MORTGAGES

Objectives

1. The objectives of the Rents to Mortgages (RTM) scheme are:
 - 1.1 to maximise home ownership among public sector tenants;
 - 1.2 to avoid drawing into home ownership those who are incapable of meeting a reasonable level of costs;
 - 1.3 to achieve a significantly faster annual rate of switching from the public rented sector into home ownership than would be achieved as a result of the operation of the Right to Buy (RTB) in its existing form;
 - 1.4 to build upon the principles and mechanics of RTB and avoid anomalies and discontinuities between RTB and RTM; and
 - 1.5 to increase or maintain the flow of capital receipts and to minimise any PSBR net costs or, if compatible with maximum take up, achieve PSBR net benefits.
2. These objectives require to be set in the context of the current forecast effects of RTB in Scotland, where public sector tenants still constitute 49% of all households. There are over 400,000 households in the public rented sector in Scotland who are not in receipt of Housing Benefit (HB), ie more than 20% of all households. Yet only about one per cent of households (including a proportion of tenants who are receiving HB and are not included in the above figures) are forecast to move into home ownership through RTB next year and take up is forecast to decline in later years.
3. Against this background, RTM is constructed to reduce to a minimum the number of tenants already meeting the full rent for their homes who choose not to opt into home ownership; and to build on the significant proportion of HB recipients who already make the necessary financial commitment to exercise RTB. RTM recognises the need for the attractiveness of the financial terms to overcome non-financial barriers to the spread of home ownership. The main non-financial barrier has its origin in the institutionalised dissatisfaction with their present house encouraged in many tenants by the almost cost-free arrangements for trading up in terms of house quality over time through public sector house allocation systems. Substantial financial benefits are necessary to overcome this, particularly among those who live in flats, as the separate RTB arrangements for those who live in flats already recognise. These advantageous RTB arrangements for tenants in flats appear insufficient, on current evidence, to achieve substantial and rapid movement into home ownership by that group. This underlines the need not to underestimate the financial incentives required to overcome this and other non-financial factors which are inhibiting movement from renting to ownership.

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Eligibility

4. RTM will be available to any tenant of a local authority, new town or Scottish Homes (as successor to the Scottish Special Housing Association) who qualifies for the right to buy.

5. It is not primarily directed towards those claiming Housing Benefit (HB). However, current HB claimants may participate in RTM if they cease claiming HB and pay the RTM amount either from any sufficient capital which they, or their family, have or through a loan, if they consider that they can sustain the payments. The important principle is that the longer term benefits of home ownership through RTM would not be available to anyone unwilling, as an individual or a family, to make a financial commitment at the outset as an indication of their readiness to accept the longer term financial responsibilities involved in the proper upkeep of their home. The financial commitment required from a tenant on, but prepared to forgo, HB would be the same as that required from a tenant in the same circumstances who had not been claiming HB.

6. RTM will be available on houses and flats (with special arrangements necessary for flats in England and Wales to deal with leasehold purchase) provided that:

6.1 the property is one to which RTB applies;

6.2 the property is not subject to cost floor restrictions for the purposes of RTB; and

6.3 the RTB price is not below the RTM price.

Financial position of RTM purchaser

7. Tenants eligible for RTM will become full owners of their home, if they opt in, for a price (the RTM price) equivalent to the amount (the RTM amount) which could be raised by way of a 25 year loan. The monthly repayments (taking account of MIRAS) for the loan would be set at a sum equal to the monthly rent for the house (net of an allowance for normal repair and maintenance costs). The allowance for repair and maintenance costs could be calculated as a standard deduction, either for the stock as a whole or for various house types, eg flats. The allowance might vary from area to area.

8. RTM purchasers would normally pay the RTM price by continuing to pay their rent (net of the allowance for repair and maintenance costs) as repayments on a loan for the appropriate amount. Alternatively, they may pay as much of the RTM price as they choose from any capital resources which they or their family have. If they do so, they will require a loan only for the balance and their monthly repayments would be correspondingly lower.

9. The availability of loans for RTM would be arranged with building societies and/or banks, in line with existing arrangements negotiated by many authorities in the context of RTB. In any cases where a loan cannot be arranged from the private sector, the purchaser will have a right to a loan from the selling authority on the same basis as under RTB.

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10. It is necessary to consider ways in which it can be assured that the allowance for repair and maintenance costs which is left in the purchaser's hands is likely to be spent for the intended purchase. One option would be to require the allowance to be paid into an interest earning savings account operated by the lender (or by a body nominated by the lender, in the exceptional cases where the lender is the selling authority) and for use of the contents of the account to be regulated by the lender. This access to savings would also assist in committing private sector lenders to the fullest possible participation in RTM.

11. RTM purchasers will be subject to a charge (the RTM charge) equal to the difference between the RTB price and the RTM price. It would reduce annually by an amount calculated on the basis of normal RTB discount rules (ie one per cent per year of the market value at the time of purchase for houses, 2% for flats). During the first 3 years following sale, normal RTB discount clawback rules would apply, in addition to the RTM charge. After 3 years, only if the tenant moved before the charge is extinguished would any obligation arise to make a payment out of the selling price (except, of course, the normal repayment to the building society/bank of any unrepaid portion of the loan). The length of time for which the charge remains payable will depend upon the size of the original difference between the RTB and RTM prices. Consequently, longer established tenants will, in general, be subject to a shorter period during which they are subject to a financial penalty for disposing of the house than tenants who have only a little more than the basic qualifying tenancy entitlement of 2 years.

12. Examples of the operation of RTM in individual cases are contained in Annex A.

Appendix

Comparison of RTB and RTM

13. These arrangements ensure a high degree of consistency between RTB and RTM. A key point of similarity is that all tenants are required to pay a minimum proportion of the vacant possession market value of their home. Under RTB this minimum proportion is standardised at 30% for flats and 40% for houses; under RTM it is less standard. Except in London and surrounding areas, we do not expect to find individual cases in which the RTM amount is less than 30% of the market value. The desirability of preserving this element of continuity with RTB is one of the reasons for confining RTM to those tenants who are able to avoid dependence on HB.

14. The difference between vacant possession market value and the RTM price comprises two elements: the normal RTB discount and a 'second tier' of discount, which diminishes in accordance with RTB discount rules to replicate what would have happened to the tenant's percentage discount entitlement for RTB if he had not opted into RTM.

15. The similarities with RTB in relation to discount lead to closely related arrangements for dealing with the early disposal of the house by the purchaser. As indicated above, during the first 3 years after purchase the normal RTB discount repayment obligation and the RTM charge run together. Consequently, the rules governing repayment will be as under RTB in both cases during those 3 years. Thereafter the

rules will be simpler than the rather complex RTB arrangements. In particular, the charge will be cancelled by the purchaser's death. This builds upon the RTB rules that the purchaser's death does not 'trigger' repayment and that the purchaser may transfer the house to a member of his family in some circumstances without 'triggering' discount repayment.

16. In considering the nature and effect of the repayment rules it is important to bear in mind that the RTM charge is largest for those tenants who would have had to increase their outgoings by the largest amount in order to afford RTB. These are a group on whom RTM needs particularly to be targeted, since they are likely to perceive the greater financial disincentives to entering home ownership via RTB. Any move to make the penalty effect of the charge more severe would be likely to reduce take up of RTM within this group.

Benefit Entitlement

17. An RTM purchaser would be entitled to social security benefits on exactly the same basis as any other owner-occupier. He would not qualify for rent rebate, but would be eligible for rate or community charge rebate.

Comparison with Housing Benefit

18. DHSS officials have suggested that there is some inherent inequity in the proposals because the benefits of RTM are not related to the tenants' financial need, unlike HB. Two people in identical financial situations and identical houses might end up acquiring their property at rather different prices because of the way the Scheme works. This is a result of an important feature of RTM, that it excludes any element of means testing, other than the exclusion of those unable or unwilling to avoid dependence on HB, for a variety of reasons. One is the need to avoid complexity, which would certainly reduce take up. Another is the specific objective of consistency with RTB. Under RTB large discounts may go to those with greater means and small discount to those who are less well off. Looking beyond the housing field, and viewing RTM more broadly as a measure to broaden the ownership of capital assets, the absence of means testing in relation to RTM can be seen as being consistent with the equality of access which households of different means have been given to share ownership, through the rationing systems common in the allocation of privatisation stock issues. DHSS do see a risk, however, that this inherent inequity could lead to provisions for more generous treatment of people receiving HB.

Administration

19. The RTM calculation will be carried out for all eligible tenants. In parallel, an estimate of the normal right to buy (RTB) discounted selling price will be calculated for single eligible tenant (to the extent possible from the information about the tenant available to the selling authority; and probably using indicative valuations derived from past RTB sales of relevant house types in the area). It will not be necessary to wait for applications from the tenant before undertaking these calculations. Tenants will then be informed of their eligibility.

20. As soon as a tenant opts into RTM, he will be passed to a participating lender arranged by the selling authority. The lender will make a capital payment of the RTM price to the selling authority and all the RTM purchaser's subsequent financial dealings will be with the lender (except in those exceptional cases passed back to the selling authority to act as lender of last resort and in transactions involving repayment of discount and charge). The conveyancing will be the responsibility of the selling authority but will be required to be put out to competitive tender; and the costs would be a first call on the capital receipts.

Repairs

21. The RTM purchaser might have to meet the costs of major repairs costing more than the accumulated sum in his repair and maintenance savings account. In such circumstances his options will be the same as any other owner occupier: to seek a means-tested renovation grant; or to take out an additional loan against the proportion of the market value of the house not covered by the RTM loan or the charge, which is likely to be a sufficiently substantial amount to cover the cost of almost all major repairs.

RTM for tenants in flats

22. RTM will apply to tenants of flats in the same way as to tenants of houses, except that the charge will diminish at twice the rate for houses in line with existing RTB discount rules. It is also likely that there will be more cases of flats where the RTB price is less than the RTM price, so that normal RTB will apply, and in RTM cases the size of the charge will generally be smaller than for houses because of lower RTB prices for flats.

23. In England and Wales, tenants in flats are liable for service charges, which are additional to their rent. These will continue once the tenant has purchased. Although the purchaser will retain the income necessary to pay existing service charges, uncertainty about the future level of charges, particularly when levied by a hostile former landlord, is likely to act as a deterrent to RTM take up. It is already a deterrent to RTB take up. This points to any solution to the problem being common to RTB and RTM.

INDIVIDUAL EXAMPLES OF RTM

1. In a case where a house is valued at £25,000 and has an RTB price of £10,000 based on 60% discount, and an RTM price of £8,760, a tenant would repay:

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

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

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

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

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

1.6 nothing if he sells after 5 years.

2. In a case where a house is valued at £40,000 and has an RTB price of £28,000, based on 30% discount, and an RTM price of £9,000, a tenant would repay:

2.1 the full difference between valuation and RTM price if he resells within a year ie £31,000;

2.2 two-thirds of the discount (20% of valuation) and the difference between the RTB and RTM prices minus one per cent of the valuation if he resells after between one and 2 years, ie £26,600;

2.3 one-third of the discount (10% of valuation) and the difference between the RTB and RTM prices minus 2% of the valuation if he resells after between 2 and 3 years, ie £22,200;

2.4 the difference between the RTB and RTM prices minus 3% of the valuation if he resells after between 3 and 4 years ie £17,800;

2.5 the difference between the RTB and RTM prices minus 4% of the valuation if he resells after between 4 and 5 years ie £17,400;

2.6 if he resells after between 10 and 11 years £15,000;

2.7 if he resells after between 20 and 21 years £11,000;

2.8 if he resells after between 30 and 31 years £7,000;

2.9 if he resells after between 40 and 41 years £3,000;

2.10 nothing if he resells after between 48 and 49 years.

RENT INTO MORTGAGES: DOE VERSION

1. This note sets out a version of the Scottish Office scheme which Department of the Environment suggest would be more suitable for England, in view of the need in England to minimise the diversion of sales from the right to buy.

Initial purchase

2. A tenant who had the right to buy would have the option of paying less than the full RTB price, so long as the price paid was equal to a capitalisation of the current rent minus an allowance for repairs. The scheme would be directed at tenants who could buy without expecting to rely on state income support in the future; it would be for decision whether this should be achieved by the rules of the scheme or by the rules governing income support. The purchase price might be financed by a private mortgage or from savings.

Payments on disposal

3. In return for the initial payment the tenant would become legal owner of the property, but would be liable to make a payment to the former landlord when disposing of the property. The liability to make such a payment would not be triggered by the death of the owner or its vesting under the will or intestacy, but the property would remain subject to the liability until such time as it was disposed of by the successors. (Sections 159 and 160 of the Housing Act 1985 are a precedent for this approach.)

4. The size of the payment on disposal would depend on the relationship between the initial payment and the value of the property, less the tenant's RTB discount, at the time of the purchase. If the tenant paid X% of the RTB price, he would be credited with X% of the equity and liable to pay, on disposal, 100-X% of the undiscounted market value of the property at the time

of the disposal. Thus a tenant who paid 25% of the RTB price would have to hand over 75% of the current full market value of the property on disposing of it. This is, however, subject to what is said below.

Acquisition of further equity

5. The owner would be free to make further payments in advance of disposal in order to acquire a larger share in the equity. Such payments would not attract discount. Thus an owner whose initial equity share was 25%, and who subsequently made a payment equal to 10% of the current undiscounted value of the property, would acquire an extra 10% of the equity, making 35% in all.

6. In addition, the owner would be credited with automatic increments of equity leading to full ownership, or to somewhere near full ownership, over a long period. On the option currently under consideration the automatic increment would be 2% a year, leading to full ownership of the equity.

Comment

7. The main features of the suggested scheme are as follows:

a. the initial purchase attracts RTB discount, so that the new scheme shades into the conventional right to buy as the initial payment approaches the full RTB price;

b. subsequent purchases of equity, whether on or before disposal, do not attract discount, the object of this being to minimise switching from the right to buy;

c. tenants who do not expect ever to be able to buy the outstanding equity and still have enough left after sale of the property to buy another home would be offered the prospect of a slow progression to full ownership, or something approaching it, without further payment.

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FINANCIAL APPRAISAL

INCENTIVES TO TENANTS

Table A sets out a comparison of the financial incentives which the three schemes offer to tenants to become home-owners.

FINANCIAL EFFECTS OF THE SCHEMES

Table B sets out a comparative financial appraisal of the three schemes, and the number of tenants assumed to be taking-up each scheme. It shows the effect on the PSBR in terms both of cash flow in the early years and the net present value (the long term saving or cost) of each scheme, under two sets of assumptions. Case A postulates that tenants will be heavily influenced by the prospect of capital gain from home ownership and that substantial numbers of older tenants will join particularly through flexi-ownership which offers them special terms. Case B assumes that tenants are actuated more by cash in hand so that more tenants would choose these schemes in preference to RIB, and the take-up among tenants with low incomes would be smaller than in Case A. In both cases, the schemes are evaluated with and without an assumption about the replacement of stock in the social rented sector. The figures are shown for Great Britain; but there are differences between the individual countries.

RIGHT TO BUY SWITCHING

In all three schemes it is assumed that some tenants otherwise likely to exercise their Right to Buy would switch to a new scheme.

Switching is lowest in the revised flexi-ownership scheme: 5% of RIB purchasers are assumed to switch in Case A, 75% in Case B.

In the DoE RIM scheme 25% switching is assumed in Case A, 100% in Case B.

The Scottish RIM scheme is thought to be so financially attractive to tenants that 100% RTB switching is assumed for Cases A and B alike.

FLATS

The modified flexi-ownership scheme contains a proposal to help flexi-owners in flats meet their service charges. The Scottish and DoE RIM schemes do not contain such a feature as now proposed. It is thought that service charges have been a major factor inhibiting the take up Right to Buy in flats. The availability of help with service charges, coupled with a lower initial purchase price than RIB could lead to substantial take up of flexi-ownership in flats. It is extremely uncertain what take up would be in practice; but in Case A it might perhaps be around a quarter of a million, and somewhat less in case B.

Because of the uncertainty about take up, flats have not been included in the financial appraisal of flexi-ownership. However it is agreed that any significant take-up of flexi-ownership in flats is likely to improve cash flow in the scheme in the early year while leaving the net present value of the scheme unaffected.

TABLE A

OWNER'S EQUITY SHARE AS PERCENT OF TOTAL VALUE OF THE HOUSE
BASED ON FIGURES FOR 4TH QUARTER 1987

	England			London and South East			North of England		
	Flexi- Owner- ship	RTM Scottish	RTM DoE	Flexi- Owner- ship	RTM Scottish	RTM DoE	Flexi- Owner- ship	RTM Scottish	RTM DoE
(1) Pre-discount value of houses sold	£32,000	£32,000	£32,000	£46,000	£46,000	£46,000	£22,000	£22,000	£22,000
(2) Average un-rebated rent	£17.40	£17.40	£17.40	£18.80	£18.80	£18.80	£16.50	£16.50	£16.50
(3) 25 year loan supported by rent minus £5 p.w	£6,900	£6,900	£6,900	£7,600	£7,600	£7,600	£6,400	£6,400	£6,400
(4) Loan as percent of pre-discount value	22%	22%	22%	17%	17%	17%	29%	29%	29%
(5) Value of house 3 years later if prices rise 5% a year	£37,000	£37,000	£37,000	£53,000	£53,000	£53,000	£25,500	£25,500	£25,500
<u>Entry at RTB minimum</u>									
(6) RTB discount	32%	32%	32%	32%	32%	32%	32%	32%	32%
(7) Equity share 3 years from entry	51%	62%	39%	45%	58%	30%	59%	69%	49%
(8) Maximum percentage without further payment	76%	100%	100%	70%	100%	100%	84%	100%	100%
(9) Years from entry to reach outright ownership	(*)	43	34	(*)	48	38	(*)	36	28
<u>Entry at discount mid-way between maximum and minimum</u>									
(10) RTB discount	46%	46%	46%	46%	46%	46%	46%	46%	46%
(11) Equity share 3 years from entry	65%	75%	46%	59%	70%	37%	73%	81%	57%

	England			London and South East			North of England		
	Flexi- Owner- ship	RTM Scottish	RTM DoE	Flexi- Owner- ship	RTM Scottish	RTM DoE	Flexi- Owner- ship	RTM Scottish	RTM DoE
(12) Maximum percentage without further payment	76%	100%	100%	70%	100%	100%	84%	100%	100%
(13) Years from entry to outright ownership	(*)	32	30	(*)	37	35	(*)	25	23
<u>Entry at Maximum discount</u>									
(14) RTB discount	60%	60%	60%	60%	60%	60%	60%	60%	60%
(15) Equity share 3 years from entry	76%	87%	60%	80%	82%	47%	84%	93%	79%
(16) Maximum percentage without further payment	76%	100%	100%	80%	100%	100%	84%	100%	100%
(17) Years from entry to reach outright ownership	(*)	18	23	(*)	23	30	(*)	11	14
<u>Buyers Equity Interest (Entry at RTB Minimum) Over Time (**)</u>									
House price after 3 years	37,000	37,000	37,000	53,000	53,000	53,000	25,500	25,500	25,000
House price after 10 years	52,000	52,000	52,000	75,000	75,000	75,000	36,000	36,000	36,000
House price after 20 years	85,000	85,000	85,000	122,000	122,000	122,000	58,500	58,500	58,500
<u>Buyer's Interest</u>									
If he sells after 3 years	18,900	23,100	14,400	23,900	30,700	15,900	15,000	17,600	12,500
If he sells after 10 years	30,200	40,300	27,600	43,500	55,900	33,000	23,800	29,600	22,700
If he sells after 20 years	57,800	76,500	62,000	83,000	107,500	78,100	44,500	54,300	48,600

	<u>England</u>			<u>London and South East</u>			<u>North of England</u>		
	<u>Flexi- Owner- ship</u>	<u>RTM Scottish</u>	<u>RTM DoE</u>	<u>Flexi- Owner- ship</u>	<u>RTM Scottish</u>	<u>RTM DoE</u>	<u>Flexi- Owner- ship</u>	<u>RTM Scottish</u>	<u>RTM DoE</u>
<u>Amount to be repaid to Local authority or Housing Corporation</u>									
If he sells after 3 years	18,100	13,900	22,600	29,100	22,300	37,100	10,500	7,900	13,000
If he sells after 10 years	21,800	11,700	24,400	31,500	19,100	42,000	12,200	6,400	13,300
If he sells after 20 years	27,200	8,500	23,000	39,000	14,500	43,900	14,000	4,200	9,900

(*) Under flexi-ownership full outright ownership is not acquired without additional payment

(**) House prices assumed to rise at 5% a year

CASH FLOWS AND NET PRESENT VALUES

All amounts are in £ million, with PSBR savings shown minus and increases plus

	1990/91	1991/92	1992/93.....1996/97	NPV	Total Take-Up (c)	
<u>CASE A</u>						
<u>Without Replacement</u>						
Flexi-ownership	-239	-733	-765	-894	-19,365	1,080,000 (b)
RTM Scottish	+156	-868	-607	+307	+873	1,145,000
RTM DoE	-220	-829	-719	-187	-5,092	530,000
<u>With Replacement</u>						
Flexi-ownership	-239	-672	-543	-18	-6,441	1,080,000 (b)
RTM Scottish	+156	-851	-544	+817	+5,105	1,145,000
RTM DoE	-220	-819	-689	+53	-697	530,000
<u>CASE B</u>						
<u>Without Replacement</u>						
Flexi-ownership	+501	+149	+126	-29	-9,445	870,000 (c)
RTM Scottish	+494	+12	+97	+476	+2,692	770,000
RTM DoE	+409	-96	-18	+284	+550	750,000
<u>With Replacement</u>						
Flexi-ownership	+501	+179	+238	+432	-2,687	870,000 (c)
RTM Scottish	+494	+20	+125	+733	+4,941	770,000
RTM DoE	+409	-90	+8	+476	+4,224	750,000

Notes: (a) Includes switches from Right to Buy

(b) The scheme for flats might add about a quarter of a million to this figure

(c) The scheme for flats would add to this figure, by something less than a quarter of a million

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FLEXI-OWNERSHIP: IMPLICATIONS FOR OTHER ASPECTS OF HOUSING POLICY

Introduction

1. This paper considers the implications for other housing policies of flexi-ownership and rents to mortgages (RTM) schemes, and possible ways of mitigating any undesirable consequences.

2. The effect of both schemes is similar in that they are designed to change public sector tenants into owner-occupiers. In considering the implications of both schemes for other policies, the main difference between them is one of scale. Public sector tenants (ie tenants of local authorities, new towns, and, in Scotland, Scottish Homes) can be divided into four groups in terms of income.

(Thousands)

All tenants	HB meets rent in full	HB meets part of rent	No HB but Income appears insufficient for RTB	Income sufficient for RTB
5,650	2,300	1,400	850	1,100
(100%)	(41%)	(25%)	(15%)	(19%)

Not all those with incomes that appear sufficient, on the evidence of those tenants that have actually bought, are in practice likely to exercise RTB for a variety of reasons that include dislike of the dwelling and a belief that they are too old or their incomes are too low. The revised flexi-ownership scheme is intended to appeal to all tenants who would not exercise RTB including older tenants on housing benefit. RTM is intended to appeal to tenants who would not exercise RTB, but not to those on housing benefit. In the Scottish version, RTM would be attractive also to tenants who would otherwise exercise RTB.

3. In other words to the extent that flexi-ownership is successful in translating more people from public sector

tenancy to owner-occupation, it has greater implications for other policies both presentationally and in reality. However, flexi-ownership, on any realistic assumptions, is not expected to attract more than 1½ million tenants. Taking into account also the effect of continuing RTB, at least 3½ million tenants out of the current total of 5½ million would still remain in the LA sector. So other housing policies will be, and could be said to be, needed for the majority of people remaining as LA tenants.

4. The paper considers other housing policies under 3 broad headings: existing policies for transferring people out of the public rented sector; housing associations and the future social rented sector; and the state of the housing stock.

Transfer from LAs

5. Both flexi-ownership and RTM make it much more attractive for tenants to leave the LA sector and to cease being tenants. They would therefore reduce the impact of existing Government policies, some of which are in the current Housing Bill, aimed at encouraging moves either to owner-occupation or to private sector landlords. The following passage lists those existing policies, describes their effects and considers the potential impact on them of the introduction of flexi-ownership or RTM.

(i) Right to Buy

6. In GB 112,000 LA homes were sold under RTB in 1987-88; and RTB applications in the first quarter of 1988 were at their highest level since 1980. DOE's present estimate of RTB receipts (including repayments on existing LA mortgages) is £2.9 billion in 1989-90, and £2.3 billion and £2.2 billion in the 2 following years. A similar rise in RTB activity has been seen in the most recent figures for Wales and Scotland. If an important objective is to avoid jeopardising those receipts, the RTM scheme would need amendment since it makes it at least as attractive for better-off tenants to go for RTM as for RTB. The flexi-ownership scheme is designed to reduce diversion from RTB by giving tenants 10 percentage points less discount; but it still offers an attractive route into home

ownership if a tenant prefers lower weekly cash payments to higher subsequent capital gain. One way of reducing further the risk of diverting tenants from full RTB would be to delay announcing, or introducing, flexi-ownership or RTM until such time as RTB sales look like tailing off. And in that event options could be considered for reviving RTB sales: Possibilities include an increase in the maximum RTB discount, changes to the discount scales to allow tenants higher discounts sooner, new rules on service charges on flats and making it easier for family members to help tenants buy. Officials have not, however, considered detailed propositions or their cost-effectiveness. It is agreed, however, that continuing RTB even with such amendments could not bring about as large an expansion of home-ownership as flexi-ownership or RTM.

(ii) Cash Incentives

7. The main other Government policy which has among its objectives the encouragement of home ownership among public sector tenants is the power in the current Housing Bills for local authorities to pay cash grants to LA tenants who agree to move out and buy in the private sector. It is proposed also to apply this policy to housing associations tenants (and to Scottish Homes tenants). It is intended to apply only in areas where there is insufficient social rented housing to meet demand from the homeless.

8. One advantage of this policy is that, unlike RTB or flexi-ownership or RTM, it not only turns tenants into owner-occupiers but it also does so by leaving a LA or HA dwelling available for letting to homeless people. Moreover, research so far suggests that a considerable number of LA tenants would move if offered cash payments of around £10,000, which will often be less than the equity value they are offered under flexi-ownership or RTM. If flexi-ownership or RTM is enacted, cash incentives may either prove less attractive to tenants than their new rights or need to be pitched higher than the £10,000 so far envisaged to persuade them to move.

9. But cash incentives to move out are only cost effective in areas of high unmet demand for social rented housing, and they

therefore have no widespread application in large areas of the country such as Scotland or the North West of England. Cash incentives to move out by definition do nothing to reduce the size of the local authority sector; and can reinforce the tendency for large council estates to become ghettos of social deprivation by removing those tenants with the initiative and the means to contemplate home ownership.

(iii) Tenants Choice

10. The Housing Bill introduces tenants choice as a new route to a new landlord other than the LA. Tenants can vote on a new landlord; in England and Wales they keep their statutory right to buy; and they get the protection of any condition attached to the approval of a new landlord. The property is sold at tenanted market value which takes account of the preserved RTB (when it exists) and relevant obligations on the landlord. The transactions depend upon willing tenants and willing landlords.

11. The same arguments as exist for preserving RTB in England and Wales also apply in favour of preserving RTM or flexi-ownership. But if they were preserved there would be disincentives for new landlords in England and Wales to take on property under Tenants Choice. The uncertainties implicit in "pepper-potting" would be much increased. Landlords would have no way of knowing what dwellings they might be obliged to dispose of and when. Preserved RTB at least offers landlords a real immediate receipt which exceeds the net rental value. Preserved rights to flexi-ownership or RTM would have to be accompanied by a regime for the reimbursement of disposing landlords no less generous than that proposed for local authorities.

12. Any scheme which makes it more attractive for LA tenants to become owner-occupiers must reduce the number of tenants attracted to schemes designed to encourage them to change landlords. A new policy could significantly reduce the number of tenants choice transactions. But it would be possible to argue

that tenants choice would still need to be available either under RTM or under flexi-ownership, since most local authority tenants are likely to remain tenants for the foreseeable future.

(iv) Wholesale Disposal of LA Stock

13. The same points apply as for Tenants Choice (but RTB would be retained in Scotland also). Tenants are very unlikely to acquiesce in wholesale transfers to new landlords if it would mean losing such options as flexi-ownership or RTM. And landlords would have to be promised similar reimbursement as for Tenants Choice, if it was to be made feasible for them to raise private finance to acquire local authority stocks. Without such an arrangement for reimbursement, the present momentum behind local authority proposals to dispose of their whole housing stocks would disappear.

Future Social Rented Sector: Housing Associations

14. In 1987-88 there were 250,000 lettings by LAs and HAs, made up of 220,000 re-lettings as properties became vacant and 30,000 homes provided by conversions/improvements or new build. For the future a deregulated private rented sector should help meet the demand for rented accommodation; but in public expenditure terms the cost of paying HB to poorer tenants paying market rents is likely to be broadly similar to the cost of subsidising their accommodation in the social rented sector. It is difficult to forecast the future need for social rented housing with any certainty. But to avoid increasing homelessness and to help mobility for low-earners, the Department of the Environment estimate that some 250,000 lettings per year will be needed of which about 200,000 will be re-lettings and 50,000 new provision.

15. In 1987-88 housing associations accounted for 60% of new provision by LAs and HAs, and that proportion is planned to increase as housing allocations to local authorities are further reduced. The policy is not only to avoid undesirable increases in

the LA stock and to promote a desirable expansion of the voluntary housing movement, but also to take advantage of the Housing Bill to introduce private finance to fund HA investment. Hitherto HAS could only charge fair rents set by the rent officer, and Exchequer grant met 100% of capital costs. Under the Bill, HA rents are deregulated, and it is envisaged that new investment will be financed 60% on average by Exchequer grant and 40% with private finance. A significantly greater number of units will thereby be provided for any given Exchequer contribution. The Department of the Environment's plans envisage that in a few years housing associations will provide virtually all of the 50,000 new homes needed in the social rented sector, most of it with the help of private finance.

16. It is difficult to assess the implications for housing associations of flexi-ownership of RTM. They fall under 3 headings: equity between LA and HA tenants; implications for investment; and the role of the Housing Corporation.

(i) Tenants - Equity

17. Existing tenants of non-charitable housing associations have the RTB, but after enactment of the Bill, new tenants of HAS will not get the RTB, since that would deter private finance. Similarly it is not envisaged that they would get rights to flexi-ownership or RTM. Since most, or eventually all, new social rented housing is to be provided by housing associations, careful presentation will be needed to justify a policy where existing or new LA tenants keep the RTB and get new flexi-ownership or RTM rights, existing tenants of non-charitable HAS keep RTB but do not get the new rights, and new tenants of all HAS get neither RTB nor the new rights.

18. However, it should be possible to devise cost effective schemes which assist housing association tenants to move out to buy, and the existence of such schemes would make the restriction of flexi-ownership or RTM to local authority tenants easier to justify.

(ii) HA Investment

19. The Department of the Environment's plans envisage a capital expenditure programme of HAs rising to 50,000 dwellings, since that figure is estimated to be needed to add to the 200,000 re-lettings by LAs and HAs, to provide the estimated 250,000 annual lettings required. The exact figures are subject to annual public expenditure discussions in the usual way.

20. Flexi-ownership or RTM, by moving let properties into owner-occupation, thereby reduces the number of re-lettings below the 200,000 pa estimate above. The question arises as to whether, and if so to what extent, those lost re-lettings would need to be replaced by new social rented provision or by higher HB payments. In the earlier paper the Department of the Environment and the Treasury argued that a sensible assumption would be that provision could need to be made to re-place two-thirds of the dwellings moving to flexi-ownership or RTM at the time when they would otherwise become available for letting. The Welsh Office pointed out that the requirement for so many people to be housed in rented housing at a cost to the Exchequer had not been examined and was not self-evident. In Scotland, half of the existing stock is still in the public rented sector. Consequently the question of replacement would only be relevant once a very substantial number of houses had been sold. To the extent that dwellings taken out of the public rented sector did need replacement it would clearly be desirable that they be replaced by housing association rather than local authority dwellings. So the introduction of RTM or flexi-ownership might lead to a further expansion of the role of housing associations, if Ministers decided to make provision for replacement.

(iii) Housing Corporation

21. The Housing Corporation in England currently allocates and supervises a capital expenditure programme of over £700m. Under the Housing Bill it gets new responsibilities, including the grant-giving functions hitherto carried out by the Secretary of State, and under the Tenants

Choice policy, the roles of approver and supervisor of approved landlords as well as adviser to tenants wanting a new landlord. To carry out those functions the Corporation staff is expected to increase by up to 25%. So it is already undergoing major change.

22. Under flexi-ownership, the Housing Corporation would get further new functions: it would administer a system whereby it would be owed outstanding amounts of equity of part-purchased properties; it would deal with requests for it to buy further amounts of equity to help the flexi-owner pay for upkeep; and it would receive its share of the equity on disposal of the property. The Corporation would in addition operate the extra equity purchase required at the outset, and any voluntary purchases thereafter. It is also proposed that the Corporation would have power to enforce the repairing covenant if a flexi-owner wilfully neglected to maintain his home. The intention is that these functions should be delegated to agents, such as building societies. Nonetheless, if total delegation proved impracticable, there would be an additional burden on the Corporation. If this were not thought tolerable in England a new body might have to be created to operate the scheme. No difficulties are foreseen in Scotland or Wales, however.

23. Under RTM, the Housing Corporation gets no new functions: RTM payments are made to the landlord in the same way as RTB payments, ie to local authorities (and in Scotland to Scottish Homes in respect of former SSHA houses).

HATs

24. To achieve its objectives, a HAT needs to own the tenanted property in its area in order to carry out decanting and redevelopment. In theory its tenants could exercise full RTB, but in the areas and estates selected this does not happen. Tenants wanting, with LA encouragement, to oppose the HAT could try to frustrate it (albeit at considerable personal risk) by opting for

flexi-ownership or RTM. But relatively few could meet the mortgage requirement. If there were thought to be a real problem in practice, one option would be to give HATs a power to delay eligibility for flexi-ownership or RTM until redevelopment was complete.

DOE

July 1988

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C/PV



Prime Minister

NEW FINANCIAL REGIME FOR LOCAL AUTHORITY HOUSING

I am now circulating for agreement the draft consultation paper on the new regime proposed in my letter to you of 9 June.

This document presents the case for a new regime and sets out in rather greater detail the principles of the new system agreed by colleagues last month. My aim in all this has been to make the system of council housing finance both simpler and clearer and to ensure that the transition from the old system to the new one is as smooth as possible.

During discussions on the proposals it was suggested that there might be a case for splitting the cost of the proposed Housing Revenue Account Subsidy between central and local taxpayers. I agreed to pursue this question separately with the Chief Secretary. Officials of the Treasury and my Department have explored the issue and I believe that we have the basis of a common understanding.

The argument for a continued local contribution, across the ring fence, has had several parts: that it would provide a community charge payer incentive to good management of the housing account, that it would reflect the contribution that local decisions on housing provision over the years have made in generating present debt, and that it would ensure that future investment in the council's stock would be sensitive to community charge payer considerations.

There is a danger here: any payment across the ring fence that gave the housing authority discretion as to the size of contribution would also give the authority discretion to continue, or to vary, a local subsidy to the housing revenue account, and in particular to rents. This is true whether the

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local contribution is confined to a small percentage of the subsidy bill or allowed to be substantial. For the local contribution to make sense in its own terms it would have to be sufficient to be felt on the community charge. However, this would strike directly at the principles on which we have agreed. We have seen that while some authorities view a local contribution as a spur to good management others, conversely, regard it as an opportunity for local subsidy - with all that that entails by way of greater dependency of the tenants on the council.

A further consequence would be an unequal burden upon community charge payers in different authorities, militating against proper comparison of rates of community charge and undermining local accountability. Moreover, any local contribution would carry with it an obligation on the Exchequer to make an allowance in setting RSG: thus effectively recreating some of the complexity and duplication of the system we are proposing to abolish.

Officials have considered whether, to avoid the misuse of this discretion by authorities, the local share of subsidy should be a fixed percentage of the HRA Subsidy due. This, however, would defeat its own object: placing a burden on the charge payer over which the authority had no control would not enhance local accountability in any way.

In short, I find the suggestion of a continued local contribution inconsistent with the aims of ring fencing. We have to set our minds on the discipline of the new financial regime itself. It is, in essence, the imposition of far tighter disciplines on local authorities than some of them have hitherto faced. It follows that the Exchequer should take on the full responsibility for meeting the need for subsidy (calculated on notional expenditure, to ensure incentives to efficiency).

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The corollary of this decision is that the new subsidy must be made to work effectively in practice. My Department is developing its ideas for example on how guidelines should be set, each year, for management and maintenance expenditure, and officials here have undertaken to discuss these in detail with their Treasury colleagues.

The only other outstanding matter is the wording of the announcement on calculation of the entitlement to subsidy (paragraph 25). I am pursuing agreement of the exact wording with the Attorney General at official level and ask colleagues to agree to publication of the consultation paper on the understanding that wording of this section is agreed with the Law Officers.

You will recall that the intention is to include the new financial regime proposals in a Bill for next session. I am therefore concerned that there is little time left to us if we are to publish a consultation document before the House rises. I should be most grateful, therefore, if colleagues would let me have their comments by next Tuesday, 19 July.

I am copying this letter and the draft consultation paper to other members of E(LF).

A handwritten signature in dark ink, appearing to be the initials "NR" with a flourish.

N R

14 July 1988

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13.07.88. DRAFT

DRAFT CONSULTATION PAPER

A NEW FINANCIAL REGIME FOR LOCAL AUTHORITY HOUSING

1. The present arrangements for financing council housing in England and Wales are muddled and inconsistent. Something simpler and clearer is required that will be fair to tenants and community chargepayers alike, and encourage businesslike management of municipal housing.

2. The White Paper "Housing: The Government's Proposals" (September 1987, Cm 214) promised a consultation paper which would set out the Government's proposals for a new financial regime. This is that consultation paper, and its subject matter is the Housing Revenue Account (HRA) and a proposed new "Housing Revenue Account Subsidy". Separate proposals for dealing with capital controls on housing programmes and capital receipts from housing were made in the recent consultation document "Capital Expenditure and Finance" (7 July).

The Present System

3. The Housing Act 1985 (section 417) requires local authorities to maintain a Housing Revenue Account (HRA) if they choose to provide housing themselves. This account may not be in deficit at the end of year, but contributions from the General Rate Fund may be used, without limit, to bring it into balance. Balances may be held in the account, and surpluses transferred to the General Rate Fund. The principal sources of income are:

rents net of rebate;

Housing Subsidy;

rent rebate subsidy under the Social Security Act 1986;

income earned from the investment of receipts from sales; and any rate fund contributions (RFCs).

Principal outgoings are:

loan charges;
management and maintenance costs; and
surpluses transferred to the general fund.

4. Central Government and the national taxpayer provide assistance to local housing operations through three separate channels:

(a) Housing Subsidy - a subsidy given specifically to help local authorities bring their Housing Revenue Accounts into balance. Entitlement is calculated by looking at loan charges, rental income, and management and maintenance expenditure. The number of authorities entitled to this help ("in subsidy") has declined sharply over the past seven years, but 95 authorities in 1987-88 still received £499 million in total from this source.

(b) Housing Benefit Subsidy - local authorities administer the Housing Benefit system which provides assistance for people unable to meet their own housing costs. The expenditure is almost wholly Exchequer funded. Housing Benefit embraces rate rebates for all kinds of householder and rent allowances for tenants of housing associations or private landlords, as well as rent rebates for council tenants. Some [66%] of tenants currently have some entitlement to rent rebates.

(c) Rate Support Grant (RSG) - this is paid to local authorities, and includes an element to help their ratepayers meet the costs of rate fund contributions made to the HRA to keep it in balance. 98 authorities (approximately half of whom were receiving Housing Subsidy - see (a) above) received £428 million in RSG for this purpose in 1987-88.

5. Housing Subsidy and RSG are paid to authorities on standardised assessments of need, which incorporate standard assumptions about the way they conduct their affairs. Authorities, however, have considerable discretion to behave in ways differently from those assessed, and may do so. As a result of the exercise these discretions, wide variations have arisen in the degree of financial support given to council housing in different authorities. Some authorities make substantial rate fund contributions to their housing even though, on national criteria, they do not qualify for Housing Subsidy, where others qualify and yet at the same time transfer housing surpluses to their general funds.

What is wrong with present arrangements

6. With such a diverse range of possible subsidies and contributions, it is not surprising that anomalies can and do arise. For example in 1987-88:

- in addition to the two groups of authorities who receive Exchequer assistance because national assessments suggest that their HRAs need subsidy to come into balance (see 4(a) and 4(c) above), there is a third group of 133 authorities (including some but not all of the first two groups, and some who were in neither) who last year made RFCs to the tune of £106 million more than assessed as reasonable for RSG purposes;
- on the other hand, 25 of the authorities receiving Housing Subsidy in 1987-88 actually transferred surpluses totalling £13 million from their HRAs to their General Rate Funds;
- 59 authorities were able to balance their HRAs with rate fund contributions totalling £115 million less than the assessments on which they received rate support grant;

- 125 authorities (including the 21 mentioned above receiving Housing Subsidy) transferred an estimated £67 million from their HRAs to their general funds.

7. The nature of the Housing Subsidy system itself, and in particular its sharp distinction between authorities "in" and "out" of subsidy, can sometimes produce distortions in the incentives to efficiency and good management. An authority receiving Housing Subsidy will get assistance (normally 75%) with the loan charges incurred on new capital projects, whether renovation, improvement or new building. They thus benefit from an Exchequer incentive to renovation which does not operate on most of the three quarters of authorities now out of subsidy. Similarly an authority in subsidy will receive full reimbursement of increased maintenance expenditure up to the limit set in the subsidy guidelines; but for the authorities out of subsidy there may even be a financial incentive to depress maintenance spending below the guidelines.

8. Apart from whatever direct or indirect Exchequer subsidy they may receive, authorities are free to provide whatever additional rate fund contribution to the HRA they choose, and can thus subsidise rents or maintenance, or simply underwrite inefficient management, at the ratepayers' expense. This is not to suggest that all, or even most, authorities are making excessive local subsidies or are inefficient, but there is evidence of a wide variation in performance around the average. Many authorities have for years pursued a sound financial policy with tenants' interests at heart; some undoubtedly should be helped to spend more on maintenance. By contrast others persist in showing management weaknesses; for example insufficient progress has been made in many areas towards the reduction of the burden of rent arrears about which Ministers expressed concern in Circular 9/87.

9. As a result, a pattern has developed of major inconsistencies between authorities in the contributions to housing costs made by rent, rate and tax payers. This distorted

pattern means that subsidies are not always being directed towards those authorities and their tenants who most need them. Its ultimate consequence is that it also reduces freedom of choice for tenants, discourages mobility, both geographical and between tenure groups, and locks people into a dependency on the council landlord.

10. In addition, the present arrangements are failing to cope with changing circumstances. Because local authorities borrow on a historic cost basis, the cost of their borrowing is effectively eroded by inflation, even at its current modest level. As a result there is a growing trend towards more and bigger surpluses in HRAs. In the past this was generally offset as new capital projects at current prices entered the account. This effect has reduced as a result of the switch to provision through private sector building, including that of housing associations (even though provision for local authority renovation has increased two and a half times since 1979-80, from £723 million to £1770 million this year). It follows that HRAs in general will increasingly generate surpluses irrespective of any changes in rents. It is essential that those surpluses should not be available to be used as a cushion for bad practices and inefficiency.

Objectives

11. A new financial regime is needed that will be simpler, fairer and more effective:

(i) It should be simpler, so that subsidy works in a more intelligible way and gives consistent incentives.

(ii) It should be fairer towards tenants and charge payers alike, and fairer between tenants in different areas. Rents generally should not exceed levels within the reach of people in low paid employment, and in practice they will frequently be below market levels. They should, however, be set by reference to these two

parameters - what people can pay, and what the property is worth, rather than by reference to historic cost accounting figures.

(iii) It should be more effective, directing the available subsidy to those areas where it is needed, and removing the cover for bad practice and inefficiency.

The Proposals

12. The Government propose that from April 1990 there should be a new "Housing Revenue Account Subsidy" to replace the present Housing Subsidy, rate fund contributions, the appropriate element of RSG, and the rent rebate element of Housing Benefit Subsidy. (There will continue to be separate subsidies for rent allowances for tenants who are not council tenants, community charge rebates, and the administration costs of all three benefits.) This new subsidy will be paid into a more tightly defined Housing Revenue Account which will reinforce the distinction between the provision of housing and other local authority functions.

13. In the new Housing Revenue Account the principal sources of income will be:

rents net of rebate; and
HRA Subsidy.

Under the separate proposals for capital expenditure and finance, interest earned from the investment of receipts will not accrue to the HRA, but to the capital funding pool. Outgoings will be chiefly:

loan charges;
management and maintenance; and
surpluses transferred to the general fund.

In addition, local authorities will be able to meet capital expenditure on HRA dwellings directly from revenue earned in the HRA. Authorities will continue to be required to budget to avoid a deficit on the HRA.

14. The effect of limiting the HRA in this way will be to make council landlords more accountable to their customers, the tenants. Local authorities will retain the discretion to run their housing operations as they think fit, for instance in the rents they set, or in the standards of management and maintenance which they provide. Well-run housing departments will be able to provide a good standard of service at a reasonable rent; on the other hand, inefficient landlords will be unable to conceal their poor standards or their extravagant costs. Tenants will thus be given clear signals about the performance of their council's housing department. They will be able to take better informed decisions about the alternatives the Government's housing policy is placing before them, and to decide whether to exercise the options the Government are giving them through the Right to Buy and Tenants' Choice.

15. It is essential therefore that the introduction of the new system should not of itself introduce any step change in the level of rents or management and maintenance spending in any individual authority. The Government propose to achieve a smooth transition by basing each authority's initial entitlement to the new Housing Revenue Account subsidy on:

(i) the estimated entitlement to main Housing Subsidy at, say, April 1989 (subject to paragraph 25 below);

(ii) the estimated entitlement to rent rebate subsidy in 1990-91; and

(iii) actual rate fund contributions to the Housing Revenue Account, averaged over three recent years.

16. The effect of these proposals will be to ensure a smooth transition to the new regime. For the tenant, the immediate effect should be indistinguishable from what would have happened if the current system had remained in force. For the community charge payer the immediate effect will be a saving from the ending of rate fund contributions, as the equivalent cost is transferred to the Exchequer.

17. For future years authorities will be entitled to subsidy to make good the deficit which would arise in the HRA if the housing were managed with reasonable efficiency. Actual changes in loan charges (subject to rules on admissible costs for new borrowing, and on the authority's "pool" rates of interest for internal borrowing), in the number of tenants receiving rent rebates and in the cost of those rebates will also be reflected in the calculation of subsidy. Account will also be taken of changes in the size of the local authority stock. As under the present system, appropriate assumptions will be made each year about movements in rent levels and in management and maintenance expenditure.

18. The Government will also consider whether more should be done to encourage authorities to reflect the value or popularity of different dwellings in establishing rent differentials between properties in the same area. This, however, concerns local authority practice rather than the subsidy regime.

19. HPA Subsidy will be designed to meet the notional deficit on the account, irrespective of an authority's actual decisions on rents and maintenance, or its managerial efficiency. This will ensure direct financial incentives to efficient management because any inefficiency will put pressure on rents or on maintenance expenditure and other aspects of service to the tenants, while any increase in spending on maintenance or management will not in itself bring about reductions in subsidy.

20. Currently about 124 authorities make transfers to the general rate fund, even though they depend on Exchequer support for rent rebate costs. In the new regime this will no longer be allowed until the whole account can come into balance without any Exchequer subsidy at all. When this happens, which it will in a few years for a handful of authorities, and in the longer term for many more, councils will be required to transfer a specified surplus (in effect, their negative entitlement) to the General Fund. This rule will prevent the natural growth in surpluses becoming a cushion to bad practices. If an authority is able, through sensible policies and efficient management, to make a larger surplus, it will be free to use the excess as it wishes - either to improve the standards of its housing service, or to reduce its community charge. In the short term, however, the community charge payers of those authorities already transferring HRA surpluses under the present arrangements will be protected by the operation of the community charge safety net.

21. Under the current arrangements for rent rebate subsidy there are financial incentives to good management locally. As with rent allowance subsidy, Exchequer support is reduced to 15% or 25%, depending on circumstances, in cases of overpaid or backdated benefits, and to 25% if the average rent of tenants on rebates is increased by more than the average rent of tenants not on rebates. These features should remain, with the local cost falling upon the HRA in future and not the general fund.

22. The administration subsidy for rent rebates and allowances alike will continue to be paid in the first instance to the general fund. Authorities will then be obliged to make a transfer from the general fund to the HRA to meet the costs which have been properly attributed to that account in respect of the administration of the rent rebate scheme. Authorities will also continue to be allowed to give discretionary rent rebates to war widows and war pensioners and in certain exceptional circumstances. The cost of these discretionary

payments will continue to be borne on the general fund and the needs assessment calculations for Revenue Support Grant will continue to take account of this expenditure.

23. Local authorities will be expected to follow proper accounting practice in their Housing Revenue Accounts, as set out for the time being in the Code of Practice on Local Authority Accounting published by the Chartered Institute of Public Finance and Accountancy in June 1987, together with any subsequent guidance of equivalent status. Failure to do so may bring their subsidy entitlement into question.

Transitional arrangements

24. The Government intend to introduce legislation which will bring the new arrangements into effect from 1 April 1990. This means that HRA Subsidy will first be payable in respect of the financial year 1990-91.

25. To protect the new arrangement from distortion by deliberate actions undertaken between now and the date of implementation (in order, for instance, to increase an authority's initial entitlement to subsidy) it is intended that various factors in the determination of entitlement should be calculated by reference to a previous period. In particular it is proposed that:

- the allowance made in the base amount for subsidy to replace rate fund contributions will be paid at the average level for each authority over three recent years;
- an allowance will be made for the average credit balance retained in the HRA at the end of each of three recent years, uprated for inflation; any excess over this balance on 1 April 1990 will be deducted from the authority's initial entitlement to subsidy;

- in respect of borrowing which is undertaken after the date of this consultation document, for projects whose costs exceed admissible limits under the existing housing subsidy system the inadmissible loan charges will be chargeable to the HRA but will not be eligible for HRA Subsidy;
- authorities which use (or have used) housing capital receipts to redeem non-housing debt in the period from 1 April 1987 to 1 April 1990 will be deemed to have redeemed a corresponding amount of housing debt, and their entitlement to subsidy in respect of loan charges will be calculated accordingly;
- similarly, debt transferred to the HRA in this period will be ineligible for subsidy save where it arises from borrowing for new capital works.

The Government may consider making further provision to forestall or offset other actions which are similarly undertaken with the effect or intention of increasing the initial entitlement to subsidy under the new arrangements.

Consultation arrangements

26. The Government invites comments upon these proposals by 15 September 1988. Letters should be addressed to the Local Authority Housing Finance Division (LAH, Room N11/04, 2 Marsham Street, London SW1P 3EB or to Housing Division A in the Welsh Office, Cathays Park, Cardiff CF1 3NQ. It would be helpful if the Departments could be told whether copies of letters have been sent to the other. Further copies of the consultation paper may be obtained from the above address.

27. Those who respond to this consultation paper are asked to indicate whether they propose to publish their responses, or to make them available to the media, and whether they would be content for the Departments to make their responses available to Parliament and to the public by placing copies in the

Libraries of both Houses of Parliament and in the Departments' libraries. Respondents who wish their responses to be made available are asked to provide four extra copies for this purpose. (Otherwise, the Departments do not undertake that responses will be released.) Unless respondents indicate that they wish their responses to be made available, the Departments will assume that they wish them to be treated as having been given in confidence. Summaries of views received which are published but which do not identify the views of individual respondents, may, however, incorporate such responses.



Housing Policy 7-12



Paul Gray Esq
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2 MARSHAM STREET
LONDON SW1P 3EB
01-212 3434

My ref:

Your ref:

RA
12/7
1. N. Beaufort 2
2. Pine Mistle
RAC 6 13/7
12 July 1988

Dear Paul,

HOUSING ACTION TRUST AREAS

Following my Secretary of State's announcement yesterday, I thought you might like to have a copy of the enclosed News Release for information.

I am copying this to Jill Rutter (Chief Secretary's Office), Neil Thornton (Department of Trade and Industry), Philip Mawer (Home Office), Roy Griffins (Department of Transport), Andrew Lean (Cabinet Office) and to Peter Smith (Chancellor of the Duchy of Lancaster's Office).

Yours
Deborah.

DEBORAH LAMB
Private Secretary

ACTION FOR CITIES

NEWS RELEASE

DEPARTMENT OF THE ENVIRONMENT

398

11 JULY 1988

WILLIAM WALDEGRAVE ANNOUNCES PROPOSED HOUSING ACTION TRUST AREAS

William Waldegrave, Minister for Housing and Planning, today announced Government proposals to set up Housing Action Trusts (HATs) in six areas of severely run-down council housing.

Mr Waldegrave said three of the proposed HATs would be in London, and one each in Yorkshire, Tyne and Wear and the West Midlands.

In answer to a Private Notice Question from Clive Soley MP (Hammersmith), Mr Waldegrave said:

"Subject to approval by both Houses of Parliament of the Housing Bill and of the necessary designation orders, my rt hon. Friend proposes to establish Housing Action Trusts in:

Lambeth:	Loughborough and Angell Town estates;
Southwark:	North Peckham and Gloucester Grove estates;

-1-



Tower Hamlets:	Solander Gardens, Shadwell Gardens, Berner, Boundary and Holland estates and part of Ocean estate;
Leeds:	Halton Moor, Seacroft South and Gipton estates;
Sandwell:	Windmill Lane and Whiteheath estates;
Sunderland:	Downhill, Townend Farm and Hylton Castle estates.

"Maps have been placed in the Libraries of both Houses today showing the areas which might be covered by the HATs. My rt hon. Friend will shortly be appointing consultants to advise him further. Final decisions on the areas to be designated will be taken in the light of the consultants' studies and of local views.

"My rt hon. Friend has chosen these areas taking account of the matters listed in Clause 60(5) of the Housing Bill. The combination of problems associated with the run-down council housing in these areas is such that a radical approach is necessary to give tenants decent housing, better services and more choice. It will therefore be the job of each HAT, in consultation with the residents, to carry out a major programme of renovation, to bring empty council properties back into use, to improve the way estates are looked after and generally to help improve the economic, environmental and social conditions of the area.

"The creation of HATs provides an opportunity to target resources on some of the areas where major concentrations of poor quality public sector stock create very intractable problems. I therefore hope that the local authorities concerned will cooperate fully in setting up HATs so that tenants can gain as soon as possible from the benefits they will bring. My rt hon. Friend is writing to the Leaders of the Councils concerned today about the proposals. He is also writing to all local residents who might be affected."

NOTES TO EDITORS:

Part III of the Housing Bill currently before Parliament contains provisions allowing the Secretary of State, subject to the approval of Parliament, to set up Housing Action Trusts to tackle the problems which have grown up in some large local authority housing estates. Clause 60 of the Bill lists matters to which the Secretary of State may have regard in deciding whether to include a particular area of land in a designation order.

£125m of public expenditure resources have been allocated to HATs for the years 1988/89 to 1990/91.

Copies of the Secretary of State's letter to residents in potential HAT areas, and maps of the candidate areas are attached.

A leaflet, 'Government Proposals for Housing: Housing Action Trusts', is available to members of the public from Room N11/20, Department of the Environment, 2 Marsham Street, SW1.

Press Enquiries: 01 276-0900
(Out of Hours: 01 276-4120
Public Enquiries: 01 276-3000
(Ask for Public Enquiries Unit)



2 MARSHAM STREET
LONDON SW1P 3EB

July 1988

Dear Occupier,

You live in one of the areas where the Government is thinking of setting up a Housing Action Trust and I am writing to tell you about our plans and how you can get more information about them.

A Housing Action Trust would work like this. It would take over the running of all Council housing in an area, repairing and improving homes, filling empty homes, and building new ones where necessary. The Trust would do repairs more quickly and keep estates in better condition than they are now. It would ask you what changes you thought were needed to the estate. It would also help to provide jobs for local people.

If you are a Council tenant the Housing Action Trust would become your landlord instead of the Council. You would pay your rent to it and it would look after your home. You would have exactly the same rights to stay in your home as you do now. If the Housing Action Trust were unable to carry out the improvements your home needed while you were living there, it could only ask you to move out if it offered you another suitable home nearby. Your rent would not increase before the Housing Action Trust had carried out improvements because I am going to give the new Trusts £125 million over the next 3 years to carry out their work. Even after the improvements, your rent would not rise out of line with Council rents.

When the Housing Action Trust had finished its improvement work it would offer you a new landlord. If you wished, and the Council agreed, the Council could again become your landlord. Or your landlord could be a housing association, a tenants' cooperative or a private landlord. Whoever it was, the new landlord would have to give guarantees about the way your home was looked after. And rents would have to remain within the reach of people in lower-paid jobs. All the options would be fully discussed with you before any decisions were made.

If you are not a Council tenant your position as a homeowner or a tenant would remain the same. You would also be likely to benefit from the improvements to the area that the Housing Action Trust should bring.

Before any Housing Action Trusts can be set up, Parliament has to approve the Housing Bill which is currently before it. If later this year I still think your area would benefit from having a Housing Action Trust, I will consult the Council and make sure that you are kept informed. In the meantime, if you would like more information about how a Housing Action Trust would work please send off the slip enclosed or contact my Department's

Regional Office in _____, extension _____
for a free leaflet.

NICHOLAS RIDLEY
Secretary of State for the Environment

If you would like a leaflet which tells you about Housing Action Trusts please complete the slip below with your name and address, indicating which language you would like the leaflet in, and return it to the address shown.

Nếu bạn muốn có một tài liệu ngắn nói về Housing Action Trusts xin vui lòng điền tên họ và địa chỉ của bạn vào miếng giấy nhỏ dưới đây và cho biết bạn muốn tài liệu viết bằng ngôn ngữ nào, xong gửi về địa chỉ ghi ở trên đó.

اگر آپ ایسا کتا بچپہ جس میں ہاؤسنگ ایکشن ٹرسٹس کے بارے میں معلومات درج ہیں حاصل کرنا چاہتے ہیں تو براہ کرم نیچے دی ہوئی سلیپ پر اپنا نام پتہ لکھیے اور یہ بھی بتائیے کہ یہ کتا بچپہ کس زبان میں درکار ہے اور پھر اس کو نیچے لکھے ہوئے پتہ پر ارسال کیجیے۔

ਜੇਕਰ ਤੁਹਾਨੂੰ ਹਾਊਸਿੰਗ ਐਕਸ਼ਨ ਟਰਸਟ ਦੇ ਬਾਰੇ ਵਿੱਚ ਜਾਣਕਾਰੀ ਵਾਲਾ ਕਿਤਾਬਚਾ ਚਾਹੀਦਾ ਹੈ ਤਾਂ ਕਿਰਪਾ ਕਰਕੇ ਹੇਠਾਂ ਦਿੱਤੀ ਹੋਈ ਸਲਿਪ ਤੇ ਆਪਣਾ ਨਾਮ ਪਤਾ ਦਰਜ ਕਰੋ ਅਤੇ ਇਹ ਵੀ ਦਸ ਕਿ ਤੁਹਾਨੂੰ ਇਹ ਕਿਤਾਬਚਾ ਕਿਸ ਭਾਸ਼ਾ ਵਿੱਚ ਚਾਹੀਦਾ ਹੈ। ਇਹ ਸਲਿਪ ਹੇਠਾਂ ਲਿਖੇ ਪਤੇ ਤੇ ਭੇਜੋ।

હાઉસિંગ એક્શન ટ્રસ્ટ્સ અંગે વિગતો આપની પત્રિકા આપને જોઈતી હોય તો નીચેની કુપનમાં આપનું નામ, સરનામું તથા પત્રિકા કઈ ભાષામાં જોઈએ છે તે જણાવો અને એ કુપન એમાં જણાવેલા સરનામે મોકલી આપો.

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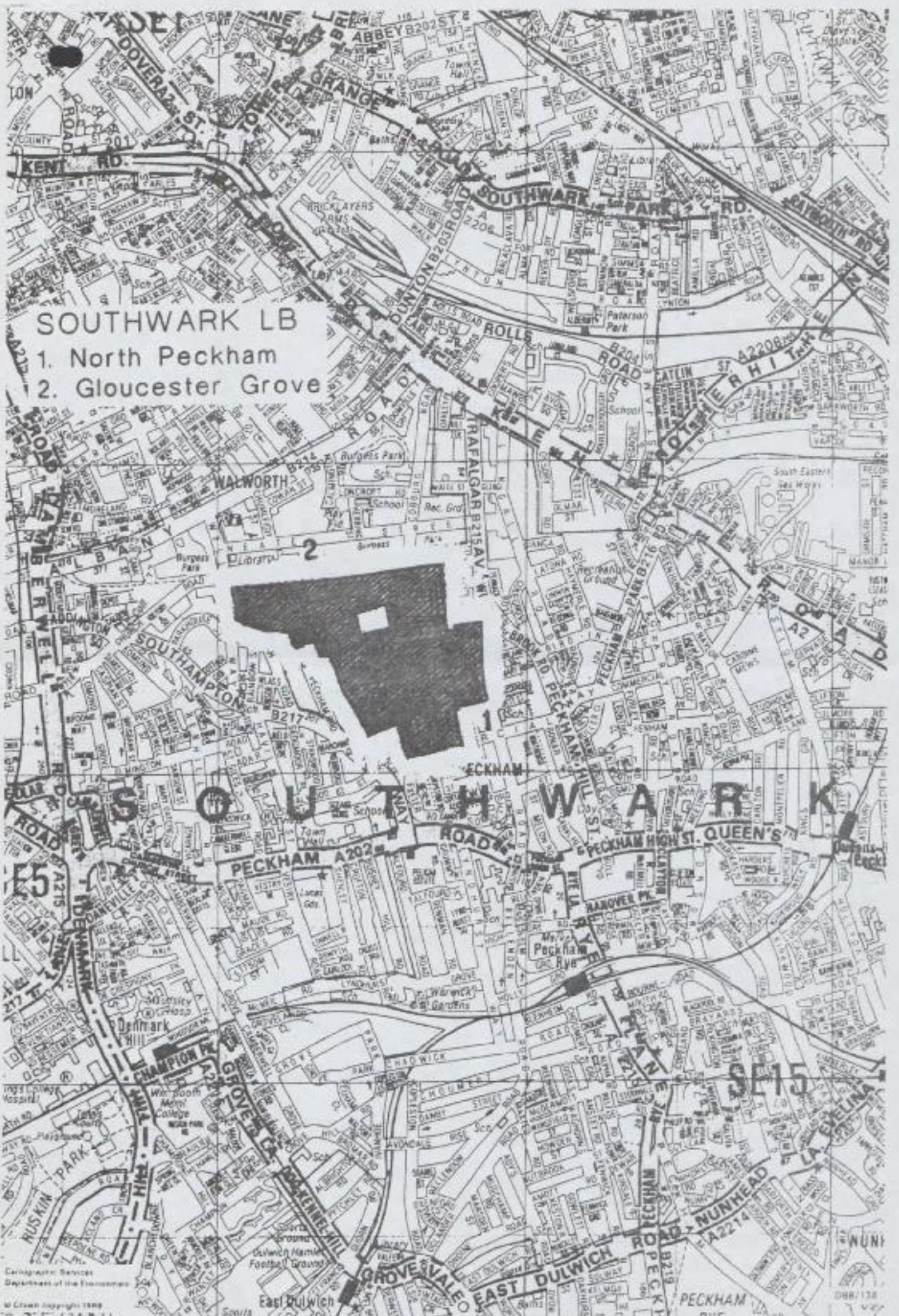
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1. Loughborough

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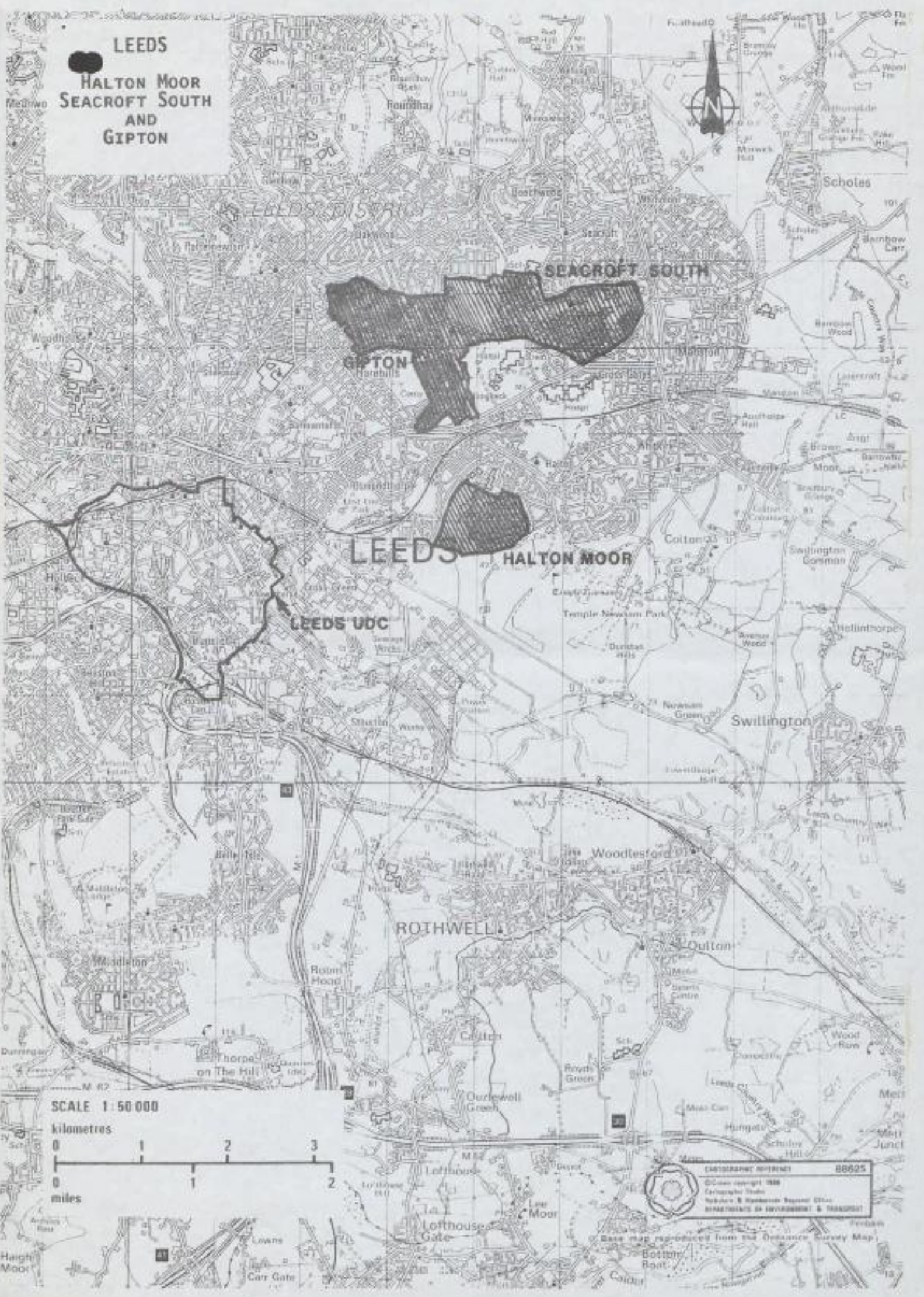
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HALTON MOOR
SEACROFT SOUTH
AND
GIPTON

F. Road 0



SEACROFT SOUTH

GIPTON

HALTON MOOR

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ROTHWELL

Swillington

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High Moor
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Carr Gate



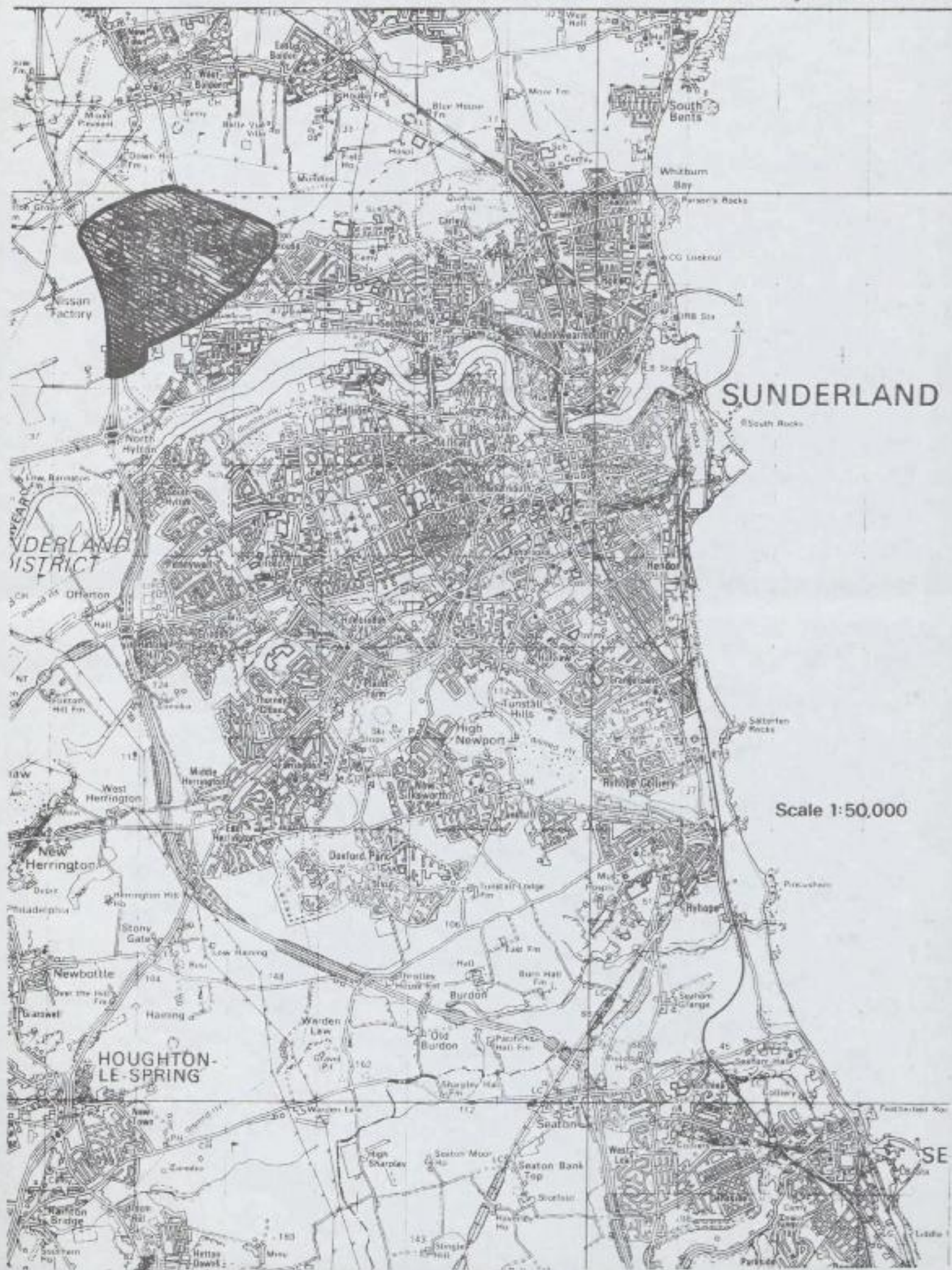
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RESTRICTED UNTIL 5 JULY

cc BG
(not discussed)
Booklet



PA

2 MARSHAM STREET
LONDON SW1P 3EB

01-212 3434

My ref:

Your ref:

cc (w Disc Project)
TJP

Dominic Morris Esq
Private Secretary to
The Prime Minister
10 Downing Street
LONDON
SW1A 2AA

July 1988

Dear Dominic,

HOUSING IN RURAL AREAS

At the Prime Minister's meeting on 9 June my Secretary of State ^{record at BOP} obtained his colleagues' approval to issue two documents - a paper on Housing in Rural Areas and a consultation document on Village Housing and New Villages - under cover of an answer to an arranged Parliamentary Question.

This is to let you know that those documents will now be issued next Tuesday, 5 July. I attach copies of both documents, together with the text of the Written Answer.

Copies of this letter go to the Private Secretaries to the Secretary of State for Employment, Secretary of State for Trade and Industry, Chancellor of the Duchy of Lancaster, the Minister of Agriculture, Fisheries and Food, the Lord President of the Council, the Lord Privy Seal, the Chief Secretary, the Paymaster General and to Trevor Woolley at Cabinet Office.

Yours

A D RING
Private Secretary



RECYCLED PAPER

RURAL HOUSING: DRAFT PQ

1. The Government is committed to the growth of owner occupation and to creating the right conditions for private investment in rented housing. Our policies are set out in the White Paper Cm 214. I have been considering what further steps we can take to improve the supply of housing in rural areas both for sale and to rent at prices within the reach of people on all levels of income. I am issuing today two documents.
2. The first is an announcement of proposals for increasing the supply of low cost housing in smaller villages; primarily through expanding the coverage and role of housing associations and the encouragement of private investment. This will involve building on the success of the rural housing association movement that has been established in part through the work of the National Agricultural Centre Rural Trust (NACRT). Their work is already funded by the Rural Development Commission and in the past by the Housing Corporation. I have agreed with the Rural Development Commission a three fold increase in NACRT's funding to enable them to expand their support service to the rural housing association movement and to establish further rural housing associations where they are needed. The Housing Corporation has already announced in its development programme for 1988/89 a revision of the criteria governing the selection of schemes in rural areas, and a doubling of their programme in smaller vilages. I have now agreed with the Housing Corporation an extension to their commitment under which they will earmark sufficient funds within their Development Programme to permit a steady increase in the number of rural schemes approved within the new criteria up to 1990/91. The target figure for that year will be 600 approvals compared with the 185 approvals (on a slightly broader definition) given in 1987/88.
3. I will also be looking for more direct private investment to meet the need for lower cost housing in rural areas. The deregulation of rents combined with the tax benefits and subsidies now available should provide a major stimulus to the private rented sector, and will help landowners to provide housing for their local communities while still making a reasonable return. I hope developers will pay increasing attention to the needs of

village communities by designing developments sympathetically and by building balanced developments that help meet local needs for low cost housing for rent and sale.

4. The second paper, on Village Housing and New Villages, is being published as a basis for discussion on housing in rural areas and the land-use planning implications. In the light of comments received, the need for new policy guidance on the subject will be considered. The paper discusses housing in relation to the changing rural economy and considers housing development in villages and small towns and the possibility of new villages in areas well away from the conurbations and well outside the Green Belts. It emphasises that the Government is fully committed to preserving the Green Belts, Areas of Outstanding Natural Beauty and other statutorily protected areas.

5. Copies of both papers are available in the Vote Office.

HOUSING IN RURAL AREAS

A statement by the Secretary of
State for the Environment

Department of Environment

5 July 1988

HOUSING IN RURAL AREAS

1. The Housing White Paper envisaged that in future the main providers of new rented accommodation would be the housing associations and the private rented sector. Local authorities would increasingly act as enablers who would facilitate the provision of new housing by others, and ensure that everyone in their area is adequately housed; but their own role as landlords would be reduced.

2. The new approach to housing policy has coincided with a growing concern over the provision of housing in rural areas, and especially the availability of lower cost housing for rent and for sale.

3. The Government believes that their new approach to housing policy will be better adapted to tackling the needs of rural areas, and especially of the smaller villages, than the old approach which relied - in the rented sector - almost exclusively on provision by local authorities. However there is a need to ensure that the possibilities for better housing offered by the new approach are realised in practice. In particular, housing associations, with some exceptions, have been predominantly urban based. There is a need to:

1) Extend the role of the housing associations in rural areas so that they can take over from local authorities some of their responsibility as the providers of new housing for rent;

2) Encourage private landlords and developers to pay more regard to the possibilities of investing in low cost housing as a part of a more balanced approach to meeting the needs of local communities; and

- 3) Clarify the role of local authorities under the new approach.

Extending the role of housing associations in rural areas

4. In the last few years some 11 rural county based housing associations have been established under the sponsorship of the National Agricultural Centre Rural Trust (NACRT). The Trust and the associations have been supported by grants from the Housing Corporation and the Rural Development Commission.

5. Although the rural housing association movement is relatively new and has operated so far on only a modest scale, it has already demonstrated both that there are real unmet needs for low cost housing in rural areas and that it can successfully meet those needs in ways that are welcomed by local people. Acceptability to local communities is a crucial asset. This reflects the associations' commitment to maintain the social balance and further the development of the existing community, and their concern to ensure that their developments fit in, in scale, design and landscaping, with the local street scene, environment and landscape. The Government believes that the best approach to tackling the housing problems of rural areas is to build on this success.

6. The Government proposes to encourage the housing association movement to expand its role in rural areas by committing funds specifically for development of housing associations and housing association projects in smaller villages - typically those with a population of 1,000 or less.

7. First, the Rural Development Commission plans to increase its funding of NACRT, to up to £315,000 in 1988/89, with the possibility of a further increase next year if appropriate in the light of NACRT's Business Plan. The additional funding will provide start-up support for rural housing associations in smaller villages. The higher level of funding will

gradually be phased out once there is sufficient income from the new rural housing association schemes to fund the rural housing associations' costs and those of the NACRT.

8. Second, the Housing Corporation have agreed to

i) Adopt more flexible criteria for the selection of schemes in rural areas that can be approved from within their development programme; and

ii) Make available sufficient funds over the next 3 years from within their announced development programme to permit a steady increase in the number of rural schemes that they approve within the new criteria.

9. The announcement of the Housing Corporation's development programme for 1988/89 on 11 February explained that the guidelines governing allocations to rural areas would be revised, and that schemes would be targetted on smaller and more isolated agricultural settlements with a view to doubling the present level of provision by housing associations in these areas. The Housing Corporation now proposes to extend this commitment to provide for a steady expansion in their rural programme up to 1990/91. The proportion of the Corporation's development programme for 1988/89 earmarked for rented schemes in rural areas should be sufficient to permit 300 approvals in 1988/89 compared with 185 approvals (on a slightly broader definition) given in 1987/88. The corresponding target figures for 1989/90 and 1990/91 will be 450 and 600 approvals respectively.

10. Taken together these proposals will permit a steady expansion of the rural housing association movement.

Low cost home ownership

11. It has been Government policy to support low cost home ownership schemes to help first-time buyers for whom the initial costs of house purchase would be out of reach. The most successful of the low cost home ownership schemes has been shared ownership where a person part-buys and part-rents a house or flat. A shared owner can buy the rest of his house in stages and then proceed to full ownership if he chooses. Such schemes are eligible for Housing Association Grants or they can be financed privately.

12. A number of organizations have suggested that in rural areas, where there are constraints on the availability of land, it would be helpful to be able to establish shared ownership schemes in which the house or flat remained available at low cost for successive purchasers. Under the terms of the current Housing Bill privately funded schemes could be established which did not give the right to the shared owner to proceed to full ownership. The Government is considering whether it would be right to set up publicly funded schemes in this way too.

The role of the private sector

13. The Government is keen to establish a greater choice in the provision of rented housing in rural areas as elsewhere. Housing associations should not become the monopolists of the future. Private sector landlords and developers also have an important role to play. In the past the problem has been that the private sector did not envisage being able to make a sufficient return through the provision of lower cost housing at prices that local people could afford. But the economic climate in rural areas, as elsewhere, is now changing; a reasonable return is no longer incompatible with providing a balanced mix of housing.

14. In the rented sector the Government has launched several important measures to encourage investment. First, the Housing Bill will remove statutory rent control from all new

lettings. Landlords will be able to charge market rents while tenants will have long term security under assured tenancies and a minimum of six months security on a short hold tenancy. Second, the Business Expansion Scheme is to be extended for the period up to the end of 1993 to cover companies providing housing let on the new assured tenancies. This will provide generous reliefs from income and capital gains tax, and give investors a very competitive return on lettings at market rents. Third, the Local Government Act gives local authorities the power to pay subsidies to landlords to bridge the gap between market rents and the rents that might be affordable to those on lower incomes. Assistance can be given in the form of revenue payments, a capital grant, or cheap land, and may be up to 50%-75% (depending on area) of the full cost of the scheme.

15. Taken together these measures will transform the prospects for investment in housing for rent. In rural areas in particular they may have a significant impact, especially where there are landowners or farmers with redundant buildings or spare land which they would prefer to devote to the benefit of their local communities if only they could do so and make a reasonable return.

16. The Government hopes that developers too will pay increasing attention to the needs of local communities in rural areas; by responding to the demand for small-scale developments that in design, location and materials respect the local vernacular and the local countryside and environment; and by building balanced developments so as to ensure that they provide for community needs for lower cost housing for rent and for sale.

Role of local authorities

17. Although local authorities will gradually cease to be the main providers of housing for rent there is bound to be a transitional period during which their continuing role as providers will be significant.

18. The main priority for local authorities in relation to their own stock is to improve its management and state of repair. The plans in the Public Expenditure White Paper envisage a continuing, though diminishing, level of spend on new build during the transitional phase whilst the housing associations and private investors are gearing up to take over what has hitherto been a local authority monopoly.

19. Local authorities will need to make their own judgement as to whether, within the resources available to them, they should give priority to renovation or to encouraging new provision. In assessing whether there is a need for new provision the first step will be to identify the needs, particularly of those who have not the means to compete in the open market. In doing this they will need to give due weight to the wishes and needs of local communities and to where people want to live. The Government hopes that they will pay particular attention to the needs of smaller communities.

20. Where they judge that new provision is required the local authorities should look first at the scope for encouraging new investment by the private sector or housing associations. Paragraph 14 above has already referred to the powers to be given to local authorities to subsidise investment in housing for rent. The identification, provision and in some cases servicing of sites can also be an important way of encouraging developers or housing associations to provide for local needs for low cost housing, perhaps through the sort of partnership arrangements that have become familiar in inner cities and elsewhere.

21. This approach implies that local authorities will need to work with and through private investors and the housing associations. Close and regular consultation arrangements will be vital. Local authorities should not need to provide houses themselves unless it is quite clear that these other providers, even with support, have not the capacity to

provide what is needed within a reasonable time scale. Such capacity problems may arise during the transitional phase particularly perhaps in respect of specialist housing needs e.g. for sheltered housing or for care in the community, especially perhaps in those rural areas where there is no tradition of housing association investment. If a local authority has identified such a need, and satisfied itself that there is no prospect in the short term of private investors or housing associations being able to meet it, they may wish to consider carrying forward the investment themselves. But this should not divert them from the aim of encouraging the new providers to build up the capacity needed to take on this role.

DEPARTMENT OF THE ENVIRONMENT

5 July 1988

CONFIDENTIAL



FILE
DA
AS

10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

30 June 1988

Dear David,

HOUSING (SCOTLAND) BILL: PREMIUMS FOR RESIDENTIAL TENANCIES

The Prime Minister has seen your Secretary of State's minutes of 23 and 28 June and the Secretary of State for the Environment's minute of 27 June. She recognises that there would be difficulties if the English and Scottish legislation were to diverge on this issue, but on balance she thinks that different legislation will be needed because of the difference in customs between England and Scotland.

I am copying this letter to Mike Eland (Lord Privy Seal's Office), Alison Smith (Lord President's Office), Roger Bright (Department of the Environment), Jon Shortridge (Welsh Office), and to Lord Denham and Sir Robin Butler.

*Yours,
Paul*

(PAUL GRAY)

David Crawley, Esq.,
Scottish Office.

CONFIDENTIAL

de

PRIME MINISTER

PREMIUMS FOR RESIDENTIAL TENANCIES

Malcolm Rifkind and Nicholas Ridley are locked in a dispute on the question of whether the Housing and the Housing (Scotland) Bills should allow the charging of premia for residential tenancies.

Mr Rifkind argues (minute of 23 June and 28 June - Flag A and Flag C) that, unless the Scottish Bill prohibits the charging of premia for residential tenancies, there is a severe risk of defeat in the Lords. He points to strong pressure from Jim Goold and Elizabeth Carnegy. He does not mind if the legal position in Scotland differs from that in England.

Mr Ridley (minute of 27 June - Flag B) argues that the prohibition of premia would make nonsense of the intention of the new legislation. And he does not regard it as tenable to have a different provision in Scotland to that ~~of~~ England.

Peter Stredder (minute of 28 June - Flag D) comes down firmly on Mr Ridley's side.

It is clear from my discussions with the Private Offices that both Messrs Ridley and Rifkind feel very strongly about this. I suspect Mr Rifkind is mainly motivated by the difficulties in the Lords with key Scottish Government supporters.

Content to accept the Policy Unit's advice that, notwithstanding the difficulties in the Lords, Mr Ridley's approach is right and that neither the Scottish nor the English Bills should make the charging of premia a criminal offence?

PRCG

PAUL GRAY
28 June 1988

DS3AAB

*I fear we shall need different
legislation because the instances are different
between England and Scotland*

D

PRIME MINISTER

28 June 1988

HOUSING (SCOTLAND) BILL
PREMIUMS FOR RESIDENTIAL TENANCIES

Malcolm Rifkind and Nicholas Ridley have minuted you about premia for residential tenancies.

Background

Under the present system of rent regulation premia are illegal for residential tenancies. This is an essential feature of rent control because otherwise charging a premium would negate much of the effect of rent control.

Deregulation and Premia

But the present Housing and Housing (Scotland) Bills are designed to deregulate new residential lettings. In a free market there is no reason to prevent premia being charged for the following reasons:

- They are an unnecessary constraint on the operation of a free market.
- A premium will inevitably be the concomitant of a lower periodic rent.
- It would be inconsistent to make it a criminal offence to charge a premium but still allow the common practice of charging rent in advance and requiring deposits.

Although both these devices are matched by eventual repayments to the tenant they involve an additional cost to him in net present value terms.

Premia are Acceptable

The point about constraining the operation of the free market is a real one since premia are already used under the existing assured tenancy scheme for perfectly acceptable reasons. Coventry Churches Housing Association uses them in their 'Sundowner' scheme, promoted by the Housing Corporation, as a means of reducing subsequent rental payments. McCarthy & Stone, the private developers of sheltered accommodation, also charge premia for some of their assured tenancy schemes. More generally, premia may be a way of meeting part of the capital cost of new rented accommodation to the mutual benefit of landlord and tenant.

Malcolm Rifkind's Arguments

Malcolm Rifkind is worried that landlords (he refers to them as 'unscrupulous' landlords) will charge high premia during the period after deregulation before an additional supply of rented accommodation is generated. He suggests that this will hit tenants on housing benefit particularly hard and may encourage them to turn to crime or to loan sharks.

It is certainly the case that rents may rise in the short term after deregulation if demand exceeds supply. This is the market mechanism that will lead to an increase in the number of houses to let. But the effect will be moderated because private sector houses at present held off the market because of rent regulation will be brought back into use. We see no particular reason to be concerned if the higher rents partly take the form of premia.

As to the position of tenants on housing benefit, it seems more likely that landlords relying on housing benefit tenants will not charge premia because they will be aware

that these cannot be paid for through housing benefit. Since there is no way the landlord can take a premium and 'run' (tenants will have lifetime security or fixed period contracts under the new system) it is in their interests to charge all the rent as a periodic rent in the knowledge that it will be funded through housing benefit. Indeed it seems likely that, at least outside London, even tenants not on housing benefit will be unlikely to pay premia because if they can afford to do so they will probably be in a position to afford home ownership. There may be exceptions, for example schemes for the elderly.

A Prohibition in Scotland Only

Mr Rifkind's later minute argues that he seeks only to outlaw premia in Scotland and recognises the case for maintaining them in England. He suggests that this would maintain the status quo both in England and Scotland.

This is disingenuous because:

- Premia are illegal for regulated tenancies both in England and Scotland.
- Premia are only legal in England for long leases and assured tenancies, neither of which is available under Scottish law.

We could not defend making charging a premium on a deregulated tenancy a criminal offence in Scotland but not in England. We would inevitably be pressed to make premia illegal and well in England since there will be no difference in the types of tenancy available.

Conclusion

We recommend that you oppose Malcolm Rifkind's proposal to make it a criminal offence to charge a premium for one of the new style deregulated tenancies. Charging a premium is a perfectly acceptable practice in a free market which can be beneficial to tenant and landlord in certain circumstances although we doubt that the practice will become widespread. It is not an option to make the practice illegal in Scotland but not in England and Wales because this distinction would be impossible to defend.

Peter Stredder

PETER STREDDER

HOUSING: policy pt 12

CONFIDENTIAL



Prime Minister

HOUSING (SCOTLAND) BILL: PREMIUMS FOR RESIDENTIAL TENANCIES

I have seen Nick Ridley's minute of 27 June to you commenting on my minute of 23 June. *into 10?*

I should perhaps make it clear that I have no wish to attempt to influence Nick to do other than maintain the provision in England and Wales allowing premiums to be charged. Circumstances are different in Scotland. We do not have anything similar to the long leaseholds which are common in England; nor do we have any assured tenancies, nor tenancies under the Rent (Agriculture) Act 1976. Furthermore, registered housing associations in Scotland are not permitted to charge premiums.

There is therefore already a marked divergence between the law relating to premiums north and south of the Border and I believe that a continuing difference in the law can easily be explained by reference to the fact that English law permits long leases, for example, whereas Scottish law does not.

I can quite well understand that Nick Ridley has had little difficulty in resisting such opposition pressure as there has been for the inclusion of a ban on premiums in his Bill. The fact of the matter is that premiums are already an established part of the private rented sector in England. Allowing premiums in England is therefore not perceived as a substantial change to the status quo; my proposal is that the status quo in Scotland should also be maintained.

Of course I agree that in a market where supply and demand were in balance, premiums would not be excessive and would result in a consequent reduction in rent. But until our reforms succeed in making more houses available for private letting, the market, although free, will not be balanced. As I explained in my minute of 23 June, in those circumstances unscrupulous landlords will be able to charge excessive premiums without offering a lower rent. I believe that that kind of activity would do enormous harm to the presentation of our reforms.

CONFIDENTIAL

A practical difference in our position is, moreover, that we have experienced opposition in the Lords from key supporters and that we shall face considerable political problems if we do not make this concession. Indeed, there is a real risk of a defeat on the amendment which has been put down for consideration at Report.

I am copying this minute to Nicholas Ridley, John Belstead, John Wakeham, Peter Walker, Bertie Denham and Sir Robin Butler.

MS Jones
(Private Secretary)

M R

28 June 1988

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

HOUSING: poly PCR



B

cc BGF



Prime Minister

HOUSING (SCOTLAND) BILL
PREMIUMS FOR RESIDENTIAL TENANCIES

In Malcolm Rifkind's minute of ^{to p enc} 23 June to you he argues that the Housing (Scotland) Bill should be amended so as to continue the prohibition in Scotland on the charging of premiums for residential tenancies. This, as Malcolm says, is an issue which we have discussed and on which we disagree.

A prohibition on premiums is clearly a necessary adjunct to a system of statutory rent control, but it has no place in a system where landlords can charge market rents. It would be illogical to allow landlords to charge whatever rent they can get, but to make it a criminal offence to charge a premium. The landlord's freedom to require the payment of a capital sum as part of the charge for granting a tenancy is an essential element in the operation of a free market. I would not expect premiums to be widely charged. But where they are charged it must be the case in a free market that the rent will be reduced as a consequence. It is a principle which is already well established in the market for commercial lettings, and in England for long residential leases and for existing assured tenancies, in respect of all of which premiums are permitted.

Housing associations too can already charge premiums and some do so. And it should be noted that Labour's Rent (Agriculture) Act 1976, which gave statutory security of tenure to farmworkers in tied cottages but did not impose statutory rent control, did not prohibit premiums for agricultural tenancies.

It is true that housing benefit is not payable on premiums, but nor is it payable on rent in advance or on deposits which, it could be argued, would equally place tenants dependant on benefit at a disadvantage. In fact, I do not think that tenants dependent



on benefit will suffer because benefit is not available for premiums. The proportion of private tenants claiming benefit is sufficiently large to ensure that landlords would seriously limit their choice of tenant if they insisted on premiums.

It would not in my view be right for the English and Scottish legislation to diverge on an issue which is so fundamental to the market principle we are applying to the private rented sector. We have had little difficulty in resisting such opposition pressure as there has been for the inclusion of a ban on premiums in the Housing Bill. But it would inevitably be much harder to defend our position if a concession had already been made in the Scottish context. While, therefore, I understand Malcolm Rifkind's concern, I think that it would be a mistake to make the change which he advocates.

I am copying this letter to Malcolm Rifkind, John Belstead, John Wakeham, Peter Walker, Bertie Denham and Sir Robin Butler.

A handwritten signature in dark ink, appearing to be the initials "NR" with a flourish.

N R

27 June 1988



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COMPILED



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CONFIDENTIAL



C.F.

R B/F not Tuesday

PCG.
with

Prime Minister

**HOUSING (SCOTLAND) BILL
PREMIUMS FOR RESIDENTIAL TENANCIES**

Nicholas Ridley and I met yesterday to discuss my view that the Housing (Scotland) Bill should be amended at its forthcoming Lords Report Stage to include a provision to continue the long-standing prohibition on charging premiums for residential tenancies in Scotland. Unless we do this, I fear that serious difficulties will arise. Premiums offer an easy target to our opponents and are strongly objected to by our supporters. They make much more difficult the positive presentation of the main thrust of our housing reforms. At the end of our meeting, Nicholas and I failed to reach agreement on whether premiums in Scotland should continue to be prohibited, but we agreed that colleagues should be asked for views.

The main arguments for continuing to prohibit premiums in Scotland are as follows:

- i. We are now winning the argument that rent control works against the interests of both tenant and landlord. It therefore seems highly imprudent to remove the prohibition, which will be easily represented by our opponents as allowing unscrupulous landlords to line their pockets at the expense of tenants.
- ii. Unless supply and demand for private rented housing are in balance, unscrupulous landlords will be able to charge high premiums. Our policies will bring supply and demand into balance. But that process will take some time; and the adverse publicity that premiums would attract will rub off on the other more central parts of our policy.
- iii. Premiums do not qualify for housing benefit. But as long as demand exceeds supply, many housing benefit claimants will be

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charged premiums. To raise the money they may turn to crime or to loan sharks. Publicity given to only a few such cases would give ammunition to our opponents, and make harder our supporters' task of presenting the benefits of our policy.

iv. There are differences north and south of the Border. Long leasehold in England and Wales requires the existence of premiums for its normal operation; but there is no new long leasehold of houses in Scotland. Accordingly it is much more difficult to achieve public acceptance of lifting the ban on premiums in Scotland: premiums have not been part of the housing market in Scotland for 60 years.

This problem will be brought to a head at Lords Report of my Bill, which is now expected to take place on 6 July. At each of the earlier stages of the Bill in both the Commons and the Lords, we have had to fend off amendments on this issue, by promising to consider the arguments made. At Lords Committee, we faced unanimous opposition to premiums, not just from the Opposition parties, but also from cross-benchers and our own backbenchers - most notably Jim Goold, and Elizabeth Carnegie. A further amendment intended to apply the prohibition on premiums to assured tenancies has been tabled for Lords Report, and Russell Sanderson and I believe that, if we seek to resist it, we will be in very real danger of losing the vote. John Belstead agrees that we have a very real handling problem on this point.

In the light of this, and of the need to continue to concentrate on presenting our housing reforms positively, I would be grateful for acceptance that we should concede at the Report Stage that premiums in Scotland should continue to be prohibited.

I am copying this to the John Belstead, John Wakeham, Nicholas Ridley, Peter Walker and Bertie Denham and Sir Robin Butler.

MR

MR

23 June 1988

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HMP175G6

HOUSING: policy p. 12



file

PRIME MINISTER

PREMIUMS FOR RESIDENTIAL TENANCIES

Malcolm Rifkind and Nicholas Ridley are locked in a dispute on the question of whether the Housing and the Housing (Scotland) Bills should allow the charging of premia for residential tenancies.

Mr Rifkind argues (minute of 23 June and 28 June - Flag A and Flag C) that, unless the Scottish Bill prohibits the charging of premia for residential tenancies, there is a severe risk of defeat in the Lords. He points to strong pressure from Jim Goold and Elizabeth Carnegie. He does not mind if the legal position in Scotland differs from that in England.

Mr Ridley (minute of 27 June - Flag B) argues that the prohibition of premia would make nonsense of the intention of the new legislation. And he does not regard it as tenable to have a different provision in Scotland to that ~~of~~ ⁱⁿ England.

Peter Stredder (minute of 28 June - Flag D) comes down firmly on Mr Ridley's side.

It is clear from my discussions with the Private Offices that both Messrs Ridley and Rifkind feel very strongly about this. I suspect Mr Rifkind is mainly motivated by the difficulties in the Lords with key Scottish Government supporters.

Content to accept the Policy Unit's advice that, notwithstanding the difficulties in the Lords, Mr Ridley's approach is right and that neither the Scottish nor the English Bills should make the charging of premia a criminal offence?

RCG

PAUL GRAY

28 June 1988

cc BCG



Caxton House Tothill Street London SW1H 9NF

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ASB

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

REC
20/6

Nichols Ridley

June 16

HOUSING ACTION TRUSTS

Thank you for copying to me your minute of 6 June to the Prime Minister. *AO*

The areas you are proposing as candidates for the first group of HATs seem appropriate particularly in the context of the other Action for Cities initiatives already in place. The emphasis on London seems right if we are to demonstrate the potential of the HAT approach.

I welcome your emphasis on the potential HATs offer for the encouragement of enterprise and the creation of job opportunities. I believe such projects if suitably developed would have potential to provide training opportunities also. I understand our officials have already had some preliminary discussion and possibilities which the HATs might present for these purposes, and will continue to work with you in this area.

I am copying this letter to the Prime Minister, Douglas Hurd, David Young, Kenneth Clarke, John Major, Paul Channon, Sir Robin Butler and Eric Sorenson.

Yours ever

NORMAN FOWLER

Housing Policy Pt 12

2011
13
MKB

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DAS



ce BG

10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

17 June 1988

Dear David,

PLEXI-OWNERSHIP/RENTS INTO MORTGAGES

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

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

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

*Yours,
Paul*

PAUL GRAY

David Crawley, Esq.,
Scottish Office

CONFIDENTIAL

JRW

CONFIDENTIAL



File M
CCBG

10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

16 June 1988

Dear Sir,

RING FENCED HOUSING

The Prime Minister was grateful for your Secretary of State's minute of 9 June reporting the details of the scheme agreed in the smaller group of ministers. She has noted that your Secretary of State will be circulating the draft consultation paper to colleagues for approval.

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

*Yours,
P.G.*

PAUL GRAY

Roger Bright, Esq.,
Department of the Environment

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M

CONFIDENTIAL

cc *[initials]*

Treasury Chambers, Parliament Street, SW1P 3AG

Roger Bright Esq
 Private Secretary to the
 Secretary of State for the Environment
 Department of the Environment
 2 Marsham Street
 London
 SW1P 3EB

*MBM**ALG**16/6*

16 June 1988

*Dear Roger,***LOCAL AUTHORITY HOUSING**

The Chief Secretary has seen your Secretary of State's minute of 9 June to the Prime Minister seeking endorsement by E(LF) of the conclusions reached by the group of Ministers which has been considering the ring-fencing of local authority housing accounts. *ALG with R.*

The Chief Secretary is content with your Secretary of State's outline of the approach agreed by the group. The Chief Secretary also welcomes your Secretary of State's undertaking to pursue with him the question of splitting the cost of future housing subsidy between central and local taxpayers in the light of official work on that issue and on the detailed arrangements for subsidy more generally.

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

*Yours,**Jin*

JILL RUTTER
 Private Secretary

HOUSING: Policy #12

15/11/2011

Y SWYDDFA GYMREIG
GWYDYR HOUSE
WHITEHALL LONDON SW1A 2ER

Tel. 01-270 0530 (Switsfwrdd)
01-270 (Llinell Union)

Oddi wrth Ysgifennydd Gwladol Cymru



CC *RG*
WELSH OFFICE
GWYDYR HOUSE
WHITEHALL LONDON SW1A 2ER

Tel. 01-270 0938 0000 (Switchboard)
01-270 (Direct Line)

From The Secretary of State for Wales

The Rt Hon Peter Walker MBE MP

16 June 1988

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NBAM

*REC 6
16/6*

The minute has

I have seen a copy of your minute to the Prime Minister about the new financial regime for local authority housing.

I am content in principle with your proposals and should be grateful if arrangements could be made to involve my officials in the detailed preparation of the scheme.

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

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

Housma : Polay PTZ



CONFIDENTIAL

P 03147

From: R T J Wilson
15 June 1988

MR GRAY

FLEXI-OWNERSHIP AND RENTS INTO MORTGAGES

1. I promised to let you have advice on the Secretary of State for Scotland's minute of 9 June proposing an alternative to flexi-ownership. *with PG?*

Mr Rifkind's Proposal

2. Mr Rifkind's proposal is an extension of the Right to Buy scheme designed for people who cannot afford the latter. In essence, rent payments, less a sum for repair and maintenance, would be converted into mortgage repayments, taking account of MIRAS, and tenants who participated would become full owners subject to repayment of the mortgage. Thus a tenant paying £89 a month might be assumed to need £20 per month for repairs; and the remaining £69 per month would be taken as the basis for calculating the size of the mortgage which at 11% over 25 years would be £8,760. There would be penalties linked to the Right-to-Buy value of the house if the tenant moved within five years.

Comment

3. We need to examine and cost this scheme in the same way as we have assessed flexi-ownership, but at first sight it would solve some of the problems identified in flexi-ownership at the last Ministerial meeting. For instance:

- i. it could be presented as an extension of the Right to Buy and might be more easily tied in with other Government policies in the present Housing Bill;
- ii. its implications for public expenditure in the short term might be less severe;
- iii. by requiring tenants to make mortgage repayments it might be less susceptible to abuse than flexi-ownership.

4. It is also possible that Mr Rifkind's scheme would be more acceptable than flexi-ownership to Mr Ridley and perhaps Treasury Ministers. Preliminary reaction from officials in DOE and Treasury has certainly been more favourable, and there is now a lot of interest in the possibilities which it presents.

5. It is not yet clear how the Secretary of State for Wales will react to Mr Rifkind's proposals. There is at least one major difference between the proposals and flexi-ownership to which he is likely to object strongly: namely, that Mr Rifkind's proposals only apply to people who are paying rents and not to people on Housing Benefit (although it could be adapted to include the latter). But there are now indications at official level that Mr Walker is being prompted by Mr Rifkind's intervention to consider modifications to his own scheme which move at least some way in the direction of Mr Rifkind.

Conclusion

6. I suggest that the best way forward would be to ask the official group on flexi-ownership which I am chairing to extend its work to Mr Rifkind's proposals and prepare a paper assessing them, including their financial implications, for the next meeting of the Ministerial Group. We will then try to prepare a balanced account of the options and the arguments for and against them including their costs.

7. It would be very helpful if the Prime Minister, when she sees Mr Walker tomorrow, could encourage him to have an open mind on the precise nature of the scheme which is going to emerge from this exercise. She could put it to him that his initiative in proposing flexi-ownership has stirred up a lot of fresh thinking and that the important thing now is to weigh up the various possibilities and get the best approach.

RJW.

R T J WILSON

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PRIME MINISTER

RING FENCED HOUSING

Mr. Ridley's minute of 9 June reports to E(LP) the scheme for ring fencing agreed in your smaller group of Ministers. He says he will be circulating for approval a short consultative paper.

Mr. Rifkind's minute of 13 June points to the differences in Scotland, but does not object to Mr. Ridley's approach for England and Wales. However, the Policy Unit note of 9 June suggests you might want to question the way in which Mr. Ridley proposes to present the new scheme.

In giving formal approval to the proposed scheme, do you want to comment on the presentation as the Policy Unit suggest?

No

M

PP Patricia A. Paulin
PG Duty Clerk

15 June, 1988.

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PRIME MINISTER

FLEXI-OWNERSHIP AND RELATED SCHEMES

You saw over the weekend the latest note from Mr. Rifkind proposing an alternative to flexi-ownership.

Richard Wilson's minute of 15 June (immediately below this note) confirms that the Rifkind idea has a number of attractions, and may well attract support from the Department of the Environment.

The immediate question is, however, whether you should take the opportunity of your meeting with Peter Walker tomorrow to encourage him to have an open mind on variants to his original flexi-ownership proposal (see paragraph 7 of Richard Wilson's note).

Do you want to have a word with Peter Walker about this when he comes in tomorrow afternoon to discuss your Welsh visit?

Free

PG

15 June, 1988.

Yes not

JD71

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cc/BG



QUEEN ANNE'S GATE LONDON SW1H 9AT

NBPM

15 June 1988

*REC
4/6*

Dear Nicholas,

Thank you for copying to me your minute of 6 June to the Prime Minister.

file with PG

I welcome your proposals to establish HATs and am grateful to have the opportunity of commenting on the proposed list of areas for designation in the first tranche. There is clearly a Safer City interest in initiatives designed to improve the physical and social conditions of areas of run-down housing and I look forward, in due course, to the local HAT staff and the Safer City co-ordinators co-operating where they coincide.

I am copying this letter to the Prime Minister, David Young, Kenneth Clarke, Norman Fowler, John Major, Paul Channon, Sir Robin Butler and Eric Sorensen.

*Young,
Douglas.*

The Rt Hon Nicholas Ridley, MP

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CGG

Prime Minister

NEW FINANCIAL REGIME FOR LOCAL AUTHORITY HOUSING

In his minute of 9 June, Nicholas Ridley outlined his proposals for the reform of local authority Housing Revenue Accounts.

While these proposals will be highly controversial, and while I agree that they will need very careful presentation, I know that Nick is keen to press ahead and I have no objection to the scheme outlined for England.

As I have explained previously, the position in Scotland is different in that the Housing Revenue Account (HRA) is, to all intents and purposes, already ring-fenced. Neither do we have the problem of accumulated surpluses from council house sales receipts or significant interest balances on revenue accounts. Virtually none of our authorities makes a surplus on its Housing Revenue Account, and because Scottish authorities generally spend lamentably little on managing and maintaining the stock (only 65% on average per house of that south of the Border) I do not foresee the possibility of forcing transfers to the general fund in the near future.

Nicholas Ridley's proposals could well have far-reaching consequences for housing benefit. When full details have been worked out - and my officials should, I suggest, be kept fully in touch with the discussions - I will want to consider whether and to what extent similar arrangements should apply in Scotland. I would not, however, expect to introduce similar legislation in session 1989/90.

Copies of this minute go to members of E(LF) and to Sir Robin Butler.

MR

13 June 1988

MR

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PRIME MINISTER

FLEXI-OWNERSHIP AND RELATED SCHEMES

It was agreed at your last meeting with the Small Housing Group that further work would be done on flexi-ownership and Related schemes, under the aegis of Richard Wilson's official group, with a view to a further meeting of the Ministerial Group in mid July.

The Department of the Environment, the Welsh Office and the Scottish Office are all now energetically working on their own variants of possible schemes. The Department of the Environment and the Scottish Office are keen to come up with an alternative to flexi-ownership which is more consistent with the extension of traditional Right to Buy. This competitive atmosphere has given rise to some degree of tension at both Ministerial and official level, but at present it is all just about being kept under control.

Against this background, Malcolm Rifkind has sent you his attached minute of 9 June, which summarises the latest * Scottish Office variant "rents into mortgages". His purpose in sending the minute is allegedly to seek agreement that this particular variant should be included within the further work. In practice, there is no need for such agreement, as it is already happening de facto. His real motive is probably to put down a marker with you that the Scottish Office is active.

You may nonetheless like quickly to glance through his note. * RTM does seem an interesting possibility. Richard Wilson's hope is that it will be possible to meld together the best elements from the competing schemes into a single preferred option, but it remains to be seen whether this can be achieved in advance of your next meeting.

fp PG *Deborah*
Duty Clerk
 10 June, 1988.

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FILE
REL

DM / WPO - no
DTI / WPSO - no
CDL / CST /
MAFF / FGO /
FERB - no - copy 2-
Langdon - no
copy 2-2

SUBJECT CC MASTER

10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

10 June 1988

Dear Roger

RURAL HOUSING

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

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

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

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

In discussion the following main points were made.

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

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

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


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

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

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

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

Yours sincerely

Dominic Morris 

(DOMINIC MORRIS)

Roger Bright, Esq.,
Department of the Environment.



10 DOWNING STREET

She wishes to make
helpful for her child when to
- that is the other side his ~~letter~~
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Child Office - London. He says it
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- ~~sent~~ in the evening of 17th to 26
My only.

CONFIDENTIAL



PRIME MINISTER

FLEXI-OWNERSHIP/RENTS INTO MORTGAGES

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

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

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

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

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

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

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

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

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

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

MR

M R

9 June 1988

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CONFIDENTIAL

RENTS INTO MORTGAGES (RTM)

1. The starting point of the scheme is that the tenant's existing rent payment is taken as the basis of the calculation of a loan for a corresponding capital sum (taking account of MIRAS). For example a rent of £89 per month is equivalent to the repayments of a loan of £11,290 (assuming an interest rate of 11% and a term of 25 years). This loan figure is the RTM value.

2. There is a degree of choice about what figure one takes as the existing rent payment. One option is to define it as the rent payment net of the cost of continuing expenditure on repair and maintenance. This could be calculated as a standard deduction, either for the stock as a whole or for various house types eg flats. It might vary from area to area. The effect of any deduction would be to reduce the RTM value; but to leave the tenants with an adequate sum from within his existing budget to pay for normal repair and maintenance costs, which should help ensure that the house is properly cared for. For example, if the deduction for average annual repair and maintenance costs were £240 per year, a tenant with a rent of £89 per month would have £69 of that counted as the loan repayment. The RTM value would be £8,760, rather than the £11,290 produced by the full rent.

3. The scheme is designed primarily for tenants not on housing benefit. A modification of the scheme for tenants on housing benefit would be to limit the rents taken into account for calculating the RTM scheme to the amount met by the tenant net of benefit.

4. The RTM calculation would be carried out for all eligible tenants. In parallel, an estimate of the normal right to buy (RTB) discounted selling price would be calculated for each eligible tenant (to the extent possible from the information about the tenant available to the selling authority; and probably using indicative valuations derived from past RTB sales of relevant house types in the area). It would not be necessary to wait for applications from the tenant before undertaking these calculations.

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

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

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

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

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

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

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

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

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

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

8.6 nothing if he sells after 5 years.

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

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

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Housing: Policy PR 12.



4

CONFIDENTIAL



K01962

MR MORRIS

RURAL HOUSING ETC

I attach a note of this morning's meeting for you to send out or incorporate in a letter of your own.

AJC

A J LANGDON

9 June 1988

EL3CVC

CONFIDENTIAL

GR,
M.M.
Ltr to Roger
Bright
DOE

I should be grateful if you and copy recipients would ensure that the record of the discussion is shown only to those with an operational need to see it.

~~NOTE OF A MEETING~~
RURAL HOUSING

The Prime Minister held a meeting at No 10 Downing Street at ~~an~~ 9.30 am on 9 June 1988 to consider rural housing issues. Present were the Secretary of State for the Environment, the Secretary of State for Employment, the Secretary of State for Trade and Industry, the Chancellor of the Duchy of Lancaster, the Minister of Agriculture, Fisheries and Food, the Lord President of the Council, the Lord Privy Seal, the Chief Secretary, Treasury and the Paymaster General. Sir Robin Butler and Mr A J Langdon (Cabinet Office) were also present.

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

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carefully presented. He therefore sought authority to proceed with the publication of the two papers as proposed in his minute of 29 April.

In discussion the following main points were made.

- a. ~~Even~~ among Government supporters in the Home Counties, there was more acceptance than might have been supposed of the cases both for additional rural housing and for the special need for low cost housing in rural areas. There was as yet no consensus view about the best ways in which new rural housing could be provided, and much needed to be done to form opinions on these issues. But the foundations already existed for acceptance of the Environment Secretary's arguments.
- b. Much of the antipathy towards new housing developments in rural areas was due to the heavy-handed and monotonous designs and high densities of many such developments in the past. Now that more land was available for release from agricultural requirements, there was a good case for building to lower housing densities, which would be both more pleasant for the occupants and, in many respects, less damaging to the environment. It would be welcome if debate on the matter ended with a consensus to that effect, and if it were made clear that high-density housing would never be permitted on the sites in question, the land costs should not be driven up by that expectation. But it might nevertheless be difficult for the Government to argue in favour of lower housing densities since that necessarily involved larger areas of land being taken into development.
- c. Everything possible should be done to encourage a mix of provision in new rural housing developments. This was important both to serve the variety of housing needs that existed, and to achieve a stimulating variety of appearance. Some recent developments had been carried through by a number of large construction firms acting in co-operation: this

helped to provide a good housing mix, as well as reducing risks and costs.

d. The Government had achieved considerable success with its efforts to ensure that public sector landowners released land that was surplus to requirements. Much of that land, however, was in derelict areas that were not immediately attractive for housing and, rather, required ^{improvement} ~~treatment~~ on Urban Development Corporation lines. The Ministry of Defence was unusual in having large rural landholdings containing areas suitable for immediate development.

e. A major inhibiting factor on any progress on rural planning was the slowness of the planning procedure itself, which was not generally understood by the public. The modifications of structure plans that would be needed to accommodate the Environment Secretary's suggestions would take years to come about. Modifications by local authorities of their structure plans would also be the appropriate way to adjust the boundaries of the Green Belt if people felt that to be appropriate in order, for example, to free industrially blighted areas of the Belt for alternative development. It had already been agreed in principle that the present machinery of structure plans should be radically streamlined, and the Environment Secretary hoped that it would be possible to introduce the necessary legislation in the session after next. It was very desirable that a reformed planning system should work much more quickly than the present one.

f. Although the Environment Secretary's paper on rural housing was a necessary component of the initiative, there were dangers in putting too much emphasis on the provision of accommodation for rent. At a time when many people were prepared to pay high prices for rural dwellings it would be divisive if it were made too easy to obtain a subsidised rent, leading to the possibility of outright purchase at a discounted price. The possibility of local authorities building dwellings for leasehold, with the cost of the land

met by a ground-rent, also contained political perils. On the other hand, there was a strong perception in rural areas that any accommodation becoming available for purchase was snapped up at prices that country-dwellers could never afford, and that a supply of low-cost accommodation for rent or shared ownership needed to be guaranteed for those employed in traditional low-paid rural activities. In view of the very rapid increase in rural house prices in many parts of the country, such as East Anglia, this matter was rapidly becoming politically prominent, and the Government would be expected to address it during the present Parliament.]

The Prime Minister, summing up the discussion, said that the meeting agreed that the case outlined by the Environment Secretary for a new approach to planning for housing in rural areas was a persuasive one and that it was right for the Environment Secretary to proceed to stimulate discussion in the way he proposed. The issue was, however, a most sensitive one with Government supporters and the presentation of the Government's views would need to be handled with extreme care. In particular, it was most important that the Government should not appear to be making all the running on the matter, and everything should be done to stimulate helpful initiatives from backbench Members of Parliament and other groups outside Government. The general line that the Government should adopt should be that without developments of the kind being proposed, rural community life would wither and disappear. The meeting also agreed that the Environment Secretary's paper on rural housing, reporting a modest increase in the number of rural housing associations, was a necessary, albeit somewhat experimental, part of the exercise. The Government should, however, be cautious about putting too much emphasis on the provision of subsidised housing for rent and possible purchase, since this could very easily be misunderstood. The real need was for new accommodation to be built for purchase, and the overriding requirement was that developments should offer a wide mix of accommodation and facilities, both to enable people to move up the ladder from cheap starter homes, and to encourage the formation of socially cohesive communities. Subject to these

points, the meeting agreed that the Environment Secretary should proceed to issue his two proposed documents, under cover of an answer to an arranged Parliamentary Question, as he had proposed in his minute to her of 29 April. Any Ministers who had further drafting comments on the documents should convey them to the Environment Secretary as soon as possible.

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

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

Dominic Morris

LOCAL AUTHORITY HOUSING SUBSIDY

Nicholas Ridley's minute to you of 9 June circulates to the full E(LF) Committee the new arrangements for local authority housing subsidy already agreed by your smaller group of ministers. As such, we have no comments on the substance which is as agreed.

However, the approach to presentation suggested in the last paragraph on the second page seems less than ideal. Instead of trying to justify the use of income from rents from richer tenants to meet part of the cost of housing benefit, we should instead move the terms of the debate and focus on net rents. What the new system does is to provide a Government subsidy to meet the difference between a local authority's income from rents net of housing benefit and their expenditure on management, maintenance and loan charges. There is really no question of richer tenants being required to take on a burden, they are merely being required to pay a reasonable rent. Other tenants will also be paying a reasonable contribution in relation to their incomes but, in almost all authorities, there will be a shortfall of expenditure over income which will be met by the Government.

Conclusion

The local authority subsidy scheme proposed in Nicholas Ridley's minute is as agreed in the small group of ministers. But we should stop characterising this as a scheme that requires richer tenants to make a contribution towards the housing benefit of the less well-off. In

reality, all tenants are being asked to make a contribution to their rent that is reasonable in relation to their incomes, the only burden is being borne by the taxpayer who is meeting the costs that cannot reasonably be met by tenants.

Peter Stredder

PETER STREDDER

after



- 9 JUN 1988

Prime Minister

attached
 E(LF) on 3 May endorsed the principle of ring fenced housing accounts for local authorities, and invited a small group of the Ministers principally concerned to give further consideration to the details of a scheme which would achieve this.

The group has now met twice and has agreed on a scheme with the following four main elements.

- (a) Local authorities will be prevented from making voluntary contributions to their Housing Revenue Account (HRA) from their General Fund.
- (b) The rent rebate element of housing benefit for council tenants will be paid for from the HRA.
- (c) Where the HRA's notional expenditure exceeds its notional income, a centrally-determined subsidy will be paid to bridge the gap. The rent rebate element in existing Housing Benefit Subsidy will be assimilated, in very much its present form, into this new subsidy.
- (d) Where the HRA's notional income exceeds its notional expenditure, the notional surplus will be required to be paid as a contribution to the authority's General Fund, for the benefit of local community charge payers.

? The entitlement to subsidy, or the requirement to make a contribution to the General Fund, will be calculated broadly by reference to actual rent rebates, loan charges and income from interest receipts (which are largely outside the control of the authority), but to guideline levels of rent and management and maintenance expenditure. The process will be very similar to that for Main Housing Subsidy at present. Incentives will be needed to encourage local authorities to manage the rent rebate system effectively and economically.



The scheme does not presuppose any particular policy on local authority rents; the guideline rent increase each year will be for discussion at the time. Whatever guidelines are set for rents and for management and maintenance costs, however, the scheme will deliver savings in Exchequer subsidy and in public expenditure under the new planning total by, in effect, making the rent rebate element in Housing Benefit Subsidy a first charge on rent income.

Safeguards will be built into the scheme to prevent manipulation by local authorities in order to increase their entitlement to subsidy, particularly in the period between announcement of the scheme and implementation. I have asked my officials to work up detailed proposals in consultation with officials in the other departments concerned.

It was suggested in our discussions that there might perhaps be a case for splitting the cost of the new housing subsidy between central and local taxpayers. The group recognised however that the implications for the new system of local government finance would need to be considered. I will pursue this question separately with the Chief Secretary, through officials in the first instance. Whichever course we prefer on this issue, the broad outline of the scheme will not be affected.

It was agreed that the proposals will need careful presentation. Our opponents will claim that the better-off tenants are being required to take on a burden (of rent rebates) which was previously borne by the Exchequer. We will therefore need to stress that authorities are simply being expected to charge rents at reasonable levels. Where this gives rise to a deficit, the Exchequer will provide subsidy; but when there is a surplus, it is reasonable for this to be used for a housing purpose, such as offsetting the cost of rent rebates for the authority's own tenants.



The group recognised that the scheme will enable us to put pressure on all local authorities to carry out their landlord functions in a businesslike and efficient way, and to charge rents at reasonable levels, without requiring the clawback of surpluses to the Exchequer. I hope that the scheme will similarly commend itself to other colleagues. I should be grateful for the Sub-Committee's approval for my proposals as outlined above so that officials can make progress with drafting Instructions to Counsel.

Further work will also be needed on the detailed arrangements for the subsidy system and the implications for housing benefit, including the PES treatment of housing benefit costs and the question of accountability for rent rebate subsidy. This need not however delay public announcement, which I propose should take the form of a short consultation paper. I will, of course, bring the draft paper to colleagues for approval before it is issued.

I am sending copies of this letter to the members of E(LF) and to Sir Robin Butler.

A handwritten signature in dark ink, appearing to be the initials "NR" with a stylized flourish.

N R

June 1988

The Rt. Hon. Kenneth Clarke QC MP
Chancellor of the Duchy of Lancaster and
Minister of Trade and Industry

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

Department of
Trade and Industry

1-19 Victoria Street
London SW1H 0ET

Switchboard
01-215 7877

Telex 8811074/5 DTHQ G
Fax 01-222 2629

Direct line 215 5147
Our ref
Your ref
Date 9 June 1988

*NBPM
Rec'd
a/b*

Dear Nick,

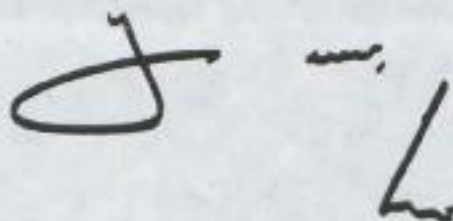
HOUSING ACTION TRUSTS

With PG?

Thank you for copying to me your minute of 6 June to the Prime Minister.

It is very helpful to have a chance to comment on your proposed list of candidates for the first batch of HATs before consultants are appointed. I agree with your suggested areas, which very largely coincide with areas in which a range of existing and new Government initiatives are already in place or planned. As you say, it is important to co-ordinate our initiatives so as to maximise their overall impact.

I am copying this letter to the Prime Minister, Douglas Hurd, David Young, Norman Fowler, John Major, Paul Channon, Sir Robin Butler and Eric Sorensen.



KENNETH CLARKE

CONFIDENTIAL



NBR

RCS

du

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

8th June 1988

Dear Secretary of State,

HOUSING ACTION TRUSTS

Thank you for copying to me your minute of 6 June to the Prime Minister.

I have no comment at this stage on your proposed candidates for the first tranche of HATs. I would want my officials to consider with yours the value for money which each designation would represent once consultants' reports are available. But providing, as you say, that you will meet the cost of the HATs proposed within the existing PES provision, and that Kenneth Clarke is content in the light of the co-ordination of urban policy, I would be happy for you to make an announcement of the areas under consideration.

However, I note that you mention that you are bidding in the Survey for provision to enable you to set up a second tranche of HATs in 1991-92. We can, of course, discuss this further in the Survey context but I could not accept pre-judgement of those discussions now by early consideration of the case for additional HATs. I believe it would be wrong in any case to take decisions on expanding the HATs programme unnecessarily early. We need to gain as much evidence as possible about the value for money achieved by the first HATs before moving on. The right time to take decisions on further designations would be in two to three years time, when announcement and designation, if agreed, could be brought close together for maximum impact.

I am copying this letter to the Prime Minister, Douglas Hurd, David Young, Kenneth Clarke, Norman Fowler, Paul Channon, Sir Robin Butler and Eric Sorensen.

Yours sincerely,

for JOHN MAJOR

(Approved by the Chief Secretary and

CONFIDENTIAL



LPO

bc EG

10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

8 June 1988

Dear Roger,

HOUSING ACTION TRUSTS

The Prime Minister was grateful for your Secretary of State's minute of 6 June. Subject to the views of colleagues she is content for your Secretary of State to proceed as proposed.

I am copying this letter to Philip Mawer (Home Office), Neil Thornton (Department of Trade and Industry), Peter Smith (Office of the Chancellor of the Duchy of Lancaster), Nicholas Wilson (Department of Employment), Jill Rutter (Chief Secretary's Office), Roy Griffins (Department of Transport), Trevor Woolley and Eric Sorensen (Cabinet Office).

Yan,
Pat
PAUL GRAY

Roger Bright, Esq.,
Department of the Environment.

EU

PRIME MINISTER

RURAL HOUSING: MEETING ON 9 JUNE

The meeting is being held to decide whether Mr. Ridley's papers on new villages and housing in rural areas should be published and, if so, when.

The main papers are:

FLAG A: Cabinet Office brief.

Paragraph 12 points out that Mr. Ridley's paper has been amended to meet all the points raised at your 9 March meeting. The key issue remains whether now is the best time to try to resolve an issue that will be controversial with backbenchers. If the decision is yes, is it worth putting the paper to Cabinet or E(A) to cover the presentational aspects.

FLAG B: A note by Carolyn Sinclair in Policy Unit.

This recommends deferring publication at least until after the Summer Recess and using the time to sharpen up the paper. She believes it still falls uneasily between expressing concern about the more restrictive attitude adopted by some local authorities on planning, and espousing the "new village" concept.

FLAG C: Mr. Ridley's revised paper.

}

FLAG D: A letter from DOE responding to a question you raised earlier - whether there was any evidence about the inadequacies of present policies or whether it was simply the rise in prices illustrating a shortage of housing. DOE's view is that the pressures are arising from long-term changes in rural society.

Mr. MacGregor may be a few minutes late for the meeting (he has an urgent dental appointment).

J.M.

Dominic Morris

8 June 1988

B

PRIME MINISTER

8 June 1988

MEETING OF MINISTERS ON 9 JUNE
HOUSING IN RURAL AREAS
VILLAGE HOUSING AND NEW VILLAGES

1. The issue for decision is whether Mr Ridley's paper "Village Housing and New Villages" should be published, together with a less controversial paper proposing increased funding for rural housing associations.

Background

2. There is widespread unease about planning. Some people may fear that it is about to be deregulated. Such fears are fanned by the enthusiasm of developers.

3. This makes it difficult to conduct a rational debate about the need for land for housing in rural areas.

4. DOE projections of the number of households in 2001 suggest that if housebuilding in London and the South East continued at current levels, the balance between households and dwellings would be no worse in 2001 than in 1986.

5. These projections reflect the increase in life expectancy, divorce, later marriage and other factors which lead to increased demand for housing on the part of a given number of people. They may prove wrong.

6. Even if they prove right, they do not point to a need for substantial additional house building in rural areas - whether in the South East or elsewhere. (Within regions, figures are not broken down as between household growth in towns and in the countryside, except in the case of Greater London which is forecast to have a lower growth rate than the rest of the South East region).

The problem

7. The problem is that local planning authorities have begun to set their face against new or converted housing in rural areas. This attitude emerges from the structure plans which are now coming in, particularly for the South East.

8. More and more applications, reflecting a buoyant building industry, are being refused. Developers now appeal as a matter of course. The Secretary of State for the Environment is increasingly drawn into the planning process.

9. Every permission granted on appeal is portrayed as a blow to local democracy, and to planning controls. The reality is that local planning authorities are probably ducking unpopular decisions. The government's position on planning has not changed.

10. It is some of the local planning authorities which have changed, by becoming ultra-restrictive on rural housing. The question is how the government should react to this.

Options

11. There are 3 ways in which the Government could react to the increasingly restrictive attitude adopted by local planning authorities:

(a) It could bow to local pressure and accept revised structure plans which reduced the land available for housing, as well as rejecting appeals. The result would be a fall in housebuilding in rural areas. This would tend to drive up prices, be bad for labour mobility, and change the character of villages. The latter would increasingly be filled up by the retired, commuters and weekenders. A reduction in housebuilding in rural areas would add to pressure on urban ones.

(b) It could try to weather things out quietly. Changes to plans, and appeals, could be handled pragmatically. The danger here is continuing uncertainty. Because so many people are already in a ferment, there would be needless worry in rural areas that major housebuilding was about to happen in the countryside generally. This worry would be fuelled every time a planning application was granted on appeal.

(c) It could issue a clear statement of the government's position on rural housing, with a view to nailing unfounded fears. This is what Mr Ridley has in mind, but neither the timing nor the content of his paper are quite right.

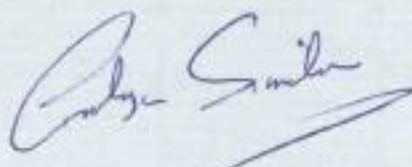
Recommendation

12. This does not seem the moment to publish anything: Mr Ridley's Bow Group speech analysed the problem caused by restrictive planning authorities more effectively than the DOE draft on village housing. But it was widely misinterpreted.

13. The current frenzy should be allowed to simmer down. But before long - perhaps early in the autumn - a revised paper should be published. This should make it clear that in the government's view it would be irresponsible to stand by and allow housebuilding in rural areas to be virtually halted by planning controls.

14. Such a statement of government policy towards housing development in rural areas should say less than the current draft about the continuum of change in villages down the centuries; and more about the consequences of a decline in rural housebuilding as a result of local planning decisions. It should be positive about the government's commitment to

the planning system, to allay needless fears. It needs to be buttressed by more figures demonstrating the increasingly restrictive attitude being adopted by some planning authorities.

A handwritten signature in blue ink, appearing to read "Carolyn Sinclair". The signature is fluid and cursive, with a long horizontal stroke extending from the end of the name.

CAROLYN SINCLAIR

PRIME MINISTER

Peter Walker's office telephoned me this evening to present his apologies for missing tomorrow's meeting on Rural Housing.

He is very eager to finalise the report on the Valleys Initiative which, I understand, is due to be announced next week, and felt he would have little to contribute to the discussion.

Are you content for him to miss the meeting?

DM.

Yes
mf

DOMINIC MORRIS

8 June 1988

CB9

CONFIDENTIAL



SCOTTISH OFFICE
WHITEHALL, LONDON SW1A 2AU

Wolton
PLC6
7/6

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

8 June 1988

Dear Secretary of State,

TRANSFER OF LOCAL AUTHORITY HOUSING

I am content with the proposals in your minute of 31 May to the Prime Minister for publishing guidelines to local authorities on large-scale voluntary disposals of their housing. I confirm in particular that I have no objection to the wording of paragraph 5 of the draft guidelines you attached.

As previously discussed, the clarifying powers agreed by E(LF) should also apply to Scotland, and I now seek confirmation of the agreement reached by our officials that the amendments you are tabling for Commons Report Stage should extend the provisions also to Scotland. Although there is little sign yet of interest by Scottish local authorities in large-scale disposals, both the Lord Advocate and I are content that the power in Scotland should also be retrospective, to avoid the possibility of any awkward comparisons being made between Scotland and England. Again with the desirability of keeping as much in line with the position in England as possible, I believe we also need in Scotland to ensure that I have power to insist that tenants involved in large-scale transfers have a preserved right to buy. Unlike tenants involved in Tenants' Choice in Scotland, tenants in large-scale disposals may not all be willing transferees, and they should not therefore lose their right to buy. At present, we have no equivalent in Scotland to section 8 of the Housing and Planning Act 1986. I hope it will be possible to achieve a preserved right to buy in Scotland through a short regulation-making provision, which our officials have agreed might appropriately be added to your Bill in the Lords. I understand you will in any event be bringing forward amendments on post-transfer disposals during the Lords stages.

I will not be issuing parallel advice to Scottish authorities meantime: but I also seek colleagues' agreement to my publishing guidelines in Scotland later in the year after the Lords amendments have been made.

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MFI155F7

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Copies of this letter go the Prime Minister, other members of E(LF), the Lord Advocate and Sir Robin Butler.

Lynn Shankland

MALCOLM RIFKIND

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

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MF1155F7

Having

Post

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cc/BA

Treasury Chambers, Parliament Street, SW1P 3AG

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

NR/BLM
RACG
7/6

6th June 1988

Dear Secretary of State,

TRANSFER OF LOCAL AUTHORITY HOUSING

Thank you for sending ^{FILE WITH PG} me a copy of your minute to the Prime Minister of 21 May, requesting agreement to the publication of the criteria for agreeing to the wholesale disposal of a local authority's housing stock to a private landlord.

I am content for you to publish the guidelines as attached to the minute. I am particularly pleased that you have made clear (in paragraph 19 of the guidelines) that you will be ensuring that each transfer is considered on Public Expenditure and Exchequer grounds.

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

Yours sincerely,

for JOHN MAJOR

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

Housing: Policy PT12





PRIME MINISTER

HOUSING ACTION TRUSTS

attaché

E(LF) (87) 20th ~~agreed~~ last September to the establishment of a first tranche of between 5 and 10 Housing Action Trusts (HATs). I am now writing to you about the specific areas for which, subject to Royal Assent to the Housing Bill, I am considering making orders to establish HATs. Before laying orders, I propose to appoint independent consultants to advise me on the suitability of these areas, as I have done in choosing locations for the Urban Development Corporations.

Objectives of HATs

In designated areas HATs will take over ownership of all housing owned by the local authority and temporarily assume the authority's landlord functions in relation to that housing. The primary tasks of each HAT will be to improve the physical condition of rundown housing in its ownership; to improve social conditions and the general environment in its area; and to provide a wider choice of tenure and ownership for tenants. As part of their revitalisation of their areas, HATs will also encourage local enterprise and employment, working closely with other local bodies concerned with economic development. The aims and objectives of HATs were discussed extensively in Committee Stage of the Housing Bill. We stressed there that we should be concentrating on some of the worst local authority estates, where the need for concerted action justifies a radical approach.

Criteria for selection

Clause 55 of the Housing Bill (copy at A) lays down a number of criteria to which I may have regard in deciding on the areas which I shall put forward for designation as HAT areas. These criteria are very broad, and they naturally lead to a wide range of candidates. After careful consideration, I have concluded that I should like to invite consultants to advise me on the suitability of the following seven areas:



Southwark: North Peckham and Gloucester Grove

Tower Hamlets: Solander Gardens, Shadwell Gardens, Berner, Ocean, Boundary and Holland

Lambeth: Loughborough and Angell Town

Newham: various estates in Canning Town

Leeds: Halton Moor, Seacroft South and Gipton North and South

Sunderland: Downhill, Town End and Hylton Castle

Sandwell and Wolverhampton: Windmill Lane, Whiteheath and Heath Town

Details of all these candidates are summarised in the attached table. Some areas would require a substantial programme of physical works; others suffer mainly from unresponsive or unimaginative management. I have put the emphasis on London in my proposed HATs programme as I believe the problems there justify a focussing of resources. Moreover, the housing market in London is more buoyant than elsewhere and the prospects for receipts from any disposals which can be recycled are far better. In considering areas, I have also had very much in mind the need for coordination between the various Action for Cities initiatives so as to maximise their overall impact. Where the proposed HAT areas are near other inner cities initiatives this is brought out in the tables.

Costs

The consultants who will be examining these areas will be able to give me a better idea as to the precise expenditure which each HAT is likely to have to undertake. Subject to their analysis, on the basis of the best available internal Departmental estimates, I am satisfied that we can afford the capital works and running costs of these seven candidates within the existing PES provision for HATs for this year, 1989/90 and 1990/91 (£5m, £50m, and £70m). By the end of the PES period, I consider that we shall have sufficient experience to justify a second tranche of HATs of similar size, and I am seeking extra provision for this in 1991/92.



Policy evaluation

The performance of each HAT will be monitored annually through the corporate planning process. A standard list of indicators for measuring performance will be centrally agreed, and is likely to be based on the experience of the Estate Action programme and my other Departmental programmes tackling the problems of the inner cities (a list of the type of measures envisaged was set out in Annex A to Appendix A to the E(LF) paper (87)38). However, we shall have to set each HAT's targets against these indicators individually, against the background of the consultants' report on that area, and taking account of local conditions. In addition to this annual assessment of HATs' progress my Department intends to carry out a separate evaluative study which will assess conditions before, during and after the establishment of the initial tranche of HATs. We are also committed to a full evaluation of the policy after the first HATs have been in existence for some time.

Deregulation and the costs of compliance

My proposals have no direct deregulation implications as no burdens will be imposed on or removed from business. The effect of HATs should be to take a significant number of people and properties out of local authority control.

EC and other international aspects

These proposals have no EC or other international implications.

Publicity arrangements

The establishment of HATs will profoundly affect the lives of people in their areas. It is, I believe, crucially important that those living in potential HAT areas should be properly informed as soon as possible after an announcement of candidates about the effects of my proposals to set up HATs. My officials have worked up detailed arrangements to ensure that, so far as possible, people likely to be affected are informed about the effects of the proposals in a language they can understand. Mainly because of the need to translate material into the languages other than English (about which I have



written separately to John Major), these arrangements will take some time to put in place following agreement from colleagues to the areas I propose. I should like to be in a position to announce the candidate areas and invite tenders from consultants to examine them early in July. I should therefore be grateful for urgent comments on my proposals. You may wish to discuss them at our meeting on Thursday 9 June.

I should be grateful if colleagues could be particularly careful to take steps to avoid any news of my proposals leaking out - it would be very damaging if the Opposition were able to spread alarming rumours about the effects of HAT designation in the candidate area before we are ready to get in touch with those affected.

Copies of this minute go to Douglas Hurd, David Young, Kenneth Clarke, Norman Fowler, John Major, Paul Channon, Sir Robin Butler and Eric Sorensen.

NICHOLAS RIDLEY

6 June 1988

PART III
HOUSING ACTION TRUST AREAS
Areas and trusts

20

Housing action
trust areas

55.—(1) The Secretary of State may by order designate an area of land for which, in his opinion, it is expedient that a corporation, to be known as a housing action trust, having the functions specified in this Part of this Act, should be established.

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(2) The area designated by an order under this section may comprise two or more parcels of land which—

- (a) need not be contiguous; and
- (b) need not be in the district of the same local housing authority.

(3) An order under this section shall be made by statutory instrument but no such order shall be made unless a draft of it has been laid before, and approved by a resolution of, each House of Parliament.

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(4) In deciding whether to make an order under this section designating any area of land, the Secretary of State shall have regard to such matters as he thinks fit.

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(5) Without prejudice to the generality of subsection (4) above, among the matters to which the Secretary of State may have regard in deciding whether to include a particular area of land in an order under this section, are—

- (a) the extent to which the housing accommodation in the area as a whole is occupied by tenants or owner-occupiers and the extent to which it is local authority housing;
- (b) the physical state and design of the housing accommodation in the area and any need to repair or improve it;
- (c) the way in which the local authority housing in the area is being managed; and
- (d) the living conditions of those who live in the area and the social conditions and general environment of the area.

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(6) An area designated by an order under this section shall be known as a housing action trust area and in the following provisions of this Part of this Act—

- (a) such an area is referred to as a "designated area"; and
- (b) an order under this section is referred to as a "designation order".

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Local authority and estate(s)	No of dwellings and predominant tenure in proposed HAT area	Total stock in borough/district and tenure type	Age of property in HAT area; physical state and design; need for improvements/repair	Living and social conditions in the HAT area including general environment, number of tenants on housing benefit and unemployment rate	Homelessness rate for 1987 (incomplete figure); number of tenants on housing benefit and unemployment rate in borough/district	Levels of rent arrears at 1/4/87 right to buy voluntary sales 1986/87		Local authority management of HAT estate(s)	Void rate at 1.4.87		Vacant land	Need for decanting for possible HAT works	Other initiatives/factors	Estate Action funding 1986 to 88
						HAT	borough/district		HAT	borough/district				
Southwark North Peckham and Gloucester Grove	2,700 predominantly LA (4.4% of LA stock)	LA: 61,385 (63%) HA: 7,210 (7%) Private: 27,074 (28%) Total stock: 96,969	Mostly late 1960s and early 1970s; mostly medium rise high density; North Peckham structurally sound. Extensive security/environmental works required.	High crime, drug abuse, theft and mugging housing benefit: North Peckham: 47% Gloucester Grove: 55% unemployment: North Peckham: 29% Gloucester Grove: 19% Liddle Ward (HAT area) 35%	872 * households accepted housing benefit: 53% unemployment: 19%	arrears: N/K Sales: few	arrears: £14.7m Sales: 2103 (3.3%)	generally very poor. Average weekly rent £22. Tenant turnover rate: North Peckham: 22% Gloucester Grove: 14.5%	Gloucester-Grove 2% North Peckham 14%	3% plus 3% squatted properties	little spare land but disused garages might be converted	high level of voids and possibly garage conversions could absorb any tenants who need to be decanted in North Peckham	Task Force, Urban Programme Authority, City Action Team	£1,670,075
Tower Hamlets: Solander Gardens, Shadwell Gardens, Berner Ocean (4 tower blocks), Boundary and Holland Estates	3,703 predominantly LA (8.2% of LA stock)	LA: 48,652 (73%) HA: 5,332 (8%) Private: 12,622 (19%) Total stock: 66,646	1920s-30s except Boundary and Solander which were built at the turn of the century. Mostly medium rise (4-6 storey) with deck access and open access balconies. Physical state ranges from poor to extremely bad. Mainly repair and refurbishment required.	Borough-wide racial tension between the local community groups. Housing benefit: Solander: N/K Shadwell Gardens: N/K Berner: 60% Ocean: 63% Boundary: 66% Holland: 55% Unemployment: Solander: N/K Shadwell Gardens: N/K Berner: 30% Ocean: 22% Boundary: 35% Holland: 27%	654 * households accepted as homeless Housing benefit: 54% Unemployment: 27%	arrears: Solander N/K Shadwell Gardens: N/K Berner: 25% Ocean: 42% Boundary 45% Holland: 41% Sales: very few	arrears: £2.28m Sales: 1112 (2.2%)	poor but improving. Average weekly rent: £17.50 Tenant turnover: 9% approximately	Solander: N/K Shadwell Gardens: N/K Berner 4.9% Ocean 4% Boundary: 7.5% Holland: 3.5%	7%	very little except SW of Ocean but its ownership is unknown	Some decanting required; could be a problem as ethnic population might be reluctant to move. Land may be available near Ocean for phased decanting and new build.	near LDDC & City; Urban Programme Authority, Task Force, City Action Team, near possible Docklands Technology College, Tower Hamlets invited to join Safer Cities Initiatives	£768,000
Lambeth: Loughborough and Angell Town	1979 predominantly LA (4% of LA stock)	LA: 48,670 (44%) HA: 8,519 (7%) Private: 51,600 (47%) Total stock: 110,550	Mostly 1960s & 1970s stock; mostly blocks of flats, houses in fair/poor condition; repairs, security measures & some demolition may be needed	high crime & vandalism housing benefit: Angell Town 64% unemployment: Angell Town 20%	388 * households accepted housing benefit: 53% unemployment: 12%	arrears Angell Town 64% of tenants Some sales of terraced housing	arrears: £7.5m Sales: 745 (1.5%)	very poor; lack of basic maintenance; high arrears & squatting average weekly rent £18.70 Tenant turnover N/K	Loughborough very high level of voids and squatted properties	2% plus 2% squatted properties	very little immediately available	repairs to spalling concrete at Loughborough might require limited decanting	good transport links into central London, Urban Programme Authority, City Action Team	Nil
Newham: various estates in Canning Town	2,500 predominantly LA in various estates with TWA blocks (8.1% of LA stock) LA in subsidy	LA: 30,723 (37%) HA: 3,818 (5%) Private: 49,470 (58%) Total stock: 84,095	1960s and 1970s stock; some system built, TWA blocks and some traditional housing; TWA blocks could be demolished or refurbished	high crime, vandalism, at Woodlands; Borough-wide racial problems although not specific to HAT area. housing benefit: Avondale: 28% others, where known 60 - 71% unemployment: Rathbone: 51% Ferrier Point: 31% Avondale: 59% Woodlands: 61% very high number of unfit dwellings	1544 * households accepted as homeless housing benefit: 40% unemployment: 15%	arrears: Ferrier Point: 44% Rathbone 70% Avondale 54% Woodlands: 69% (% of tenants) Sales: very few	arrears: £3.1m Sales: 3287 (9.3%)	poor maintenance Average weekly rent £19.73 Tenant turnover slow	Ferrier Point 3% Avondale 8% Woodlands 25% Rathbone 5%	9% (5% excluding blocks recently decanted)	few small sites with development potential	Clenents Ave and Woodlands estates being decanted for improvement work. Further major decanting may not be necessary. Redevelopment scheme in prospect for TWA blocks	Adjacent to LDDC area and 2 major housing developments, Urban Programme Authority, City Action Team, near possible Docklands Technology College	£2,295,854

Local authority and estate(s)	No of dwellings and predominant tenure in proposed HAT area	Total stock in borough/district and tenure type	Age of property in HAT area; physical state and design; need for improvements/repair	Living and social conditions in the HAT area including general environment, number of tenants on housing benefit and unemployment rate	Homelessness rate for 1987 (incomplete figure); number of tenants on housing benefit and unemployment rate in borough/district	Level of rent arrears at 1/4/87 and right to buy and voluntary sales 1986/87		Local authority management of HAT estate(s)	Void rate at 1.4.87		Vacant land	Need for decanting for possible HAT works	Other initiatives/factors	Estate Action funding 1986 to 88
						HAT	borough/district		HAT	borough/district				
Leeds: Halton Moor, Seacroft, South and Gipton North and South	6,700 predominantly LA (7.4% of LA stock) LA not in subsidy	LA: 90,974 (32%) HA: 8,250 (3%) Private: 188,876 (65%) Total stock: 288,100	Most stock 1930s, some post war; improvement/repair of cottage-style houses needed, 90% in poor internal condition; possible demolition of 3 - 5 tower blocks	high crime, vandalism, graffiti housing benefit: about 70% unemployment: substantially above Leeds average	661 * households accepted as homeless housing benefit: 65% unemployment: 10%	arrears: £90,400 Sales: 294 (4.4%)	arrears: £1.3m Sales: 7,538 (7.7%)	remote, unimaginative and paternalistic. Average weekly rent £15.18 Tenant turnover N/K	4% 2%	small areas not suitable for new build	Internal improvements require decanting. Could use voids/mobile dwellings/rented housing	mini - UDC in City, Task Force, Urban Programme Authority, City Action Team	£1,342,872	
Sunderland Downhill, Town End Farm and Hylton Castle	4,033 predominantly LA (7.8% of LA stock)	LA: 51,913 (44%) HA: 3,081 (3%) Private: 60,544 (51%) Total stock: 117,729	1960s stock: flats poor condition houses fair; conversions to more suitable house types needed.	high crime, vandalism housing benefit: Downhill 75% unemployment: higher than average; LA estimate 60.5% on Downhill	877* households accepted as homeless housing benefit: 72% unemployment: 18.1%	arrears: £0.33m Sales: 84 (2%)	arrears: £2.165m Sales: 6,913 (11.8%)	poor but improving Average weekly rent £14.99 Tenant turnover rate: Downhill: 27.6% Average for 3 estates: 20%	Downhill 30% 4%	open space available	works will require some decanting but probably enough vacant property within estate	UDC, Enterprise Zone, Urban Programme Authority, near Nissan car factory City Action Team	£758,529	
Sandwell/ Wolverhampton Windmill Lane, Whiteheath, (Wallace Close, Lion Farm and Titford Lane) Heath Town	5,030 predominantly LA (5.4% of LA stock)	Sandwell: LA: 54,483 (45%) HA: 2,553 (2%) Private: 62,379 (52%) Total stock: 119,415 Wolverhampton: LA: 38,710 (39%) HA: 2,494 (3%) Private: 56,448 (57%) Total stock: 976,521	late 1950s and early 1960s, some 1970s stock; Windmill Lane: demolition of majority of high-rise needed; refurbishment or conversion work on other properties. Whiteheath: refurbishment, improvement and some demolition. Heath Town: refurbishment, demolition and possibly some new build.	high crime, vandalism graffiti, some racial tension; ethnic population: high proportion (9.6% in Wolverhampton borough and 11 - 30% in Sandwell wards) housing benefit: varies from 65% to 93% unemployment: Heath Town: 35% Wallace Close: 93% Windmill Lane: 78%	Sandwell and Wolverhampton 878 accepted as homeless housing benefit: 73% unemployment: Sandwell: 16% Wolverhampton: 15%	arrears: Heath Town: 80% Lion Farm: N/K Wallace Close: 47% Windmill Lane: 48% Sales: N/K	arrears: Wolverhampton: £3m Sandwell: £2m Sales: 11,026 (10.8%)	poor Average weekly rent: Sandwell: £27 Wolverhampton: £23 Tenant turnover: Sandwell: 13% Wolverhampton: 11%	Heath Town: 14% Lion Farm: 7% Wallace Close: 66% Titford Lane: 60% Windmill Lane: 50%	5% quite a bit of land at Windmill Lane	depending on the works programme, voids or the available land could be used for decanting.	UDC Wolverhampton; Safer City Initiative, Task Force, both Urban Programme Authorities	£1,210,618	

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From The Secretary of State for Wales

Rt Hon Peter Walker MBE MP

6 June 1988

CONFIDENTIAL

MBPM

RACG
8/6

Dear Secretary of State

PRIVATISATION OF LOCAL AUTHORITY HOUSING - GUIDELINES TO LOCAL AUTHORITIES.

Thank you for sight of your minute of ¹¹31 May to the Prime Minister. I am content with your proposal to issue the guidelines, as drafted, next Wednesday.

Guidance notes for Welsh authorities are currently being drafted. They will be set in the context of my Alternatives for Social Housing (ASH) programme. You will know, I think, that I have retained our PEP consultants to advise me on detailed arrangements concerning voluntary transfer proposals and to give a limited amount of assistance to authorities who wish to explore the possibilities of such transfers.

Needless to say the guidance I intend to issue in Wales will reiterate all the substantive points in your paper. But in addition there are a few subsidiary but important points which I want to bring to the attention of authorities in Wales. I hope you agree that the following points are within our agreed approach on this policy.

- the importance of good management in the new landlord bodies;
- the need for orderly handovers;
- the possibilities for genuine competition between bodies in federated structures and for decentralised management structures;
- the desirability of establishing long term arrangements for tenant participation;
- the recognition of the more immediate role we envisage in Wales for the District Valuer; and
- an acknowledgement that we recognise that some authorities may have difficulties over residual loan debts.

...../My officials

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



My officials will keep yours informed about the detailed wording of the Welsh guidance. I hope it will be issued at about the same time as yours.

/ I am copying this letter to other members of E(LF) and to Sir Robin Butler.

Yours sincerely
J. S. Stewart

Approved by the Secretary of State
and signed in his absence

HOUSING: Policy PT12



CONFIDENTIAL



JD
aBG

10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

3 June, 1988.

Dear Roger

TRANSFER OF LOCAL AUTHORITY HOUSING

The Prime Minister has seen your Secretary of State's minute of 31 May, and has confirmed that she is content that he should publish the guidelines which were enclosed when tabling the clarifying amendments next week.

I am sending copies of this letter to the Private Secretaries to the other members of E(LF) and to Trevor Woolley (Cabinet Office).

Z

Andy

(P.A. Bearpark)

Roger Bright, Esq.,
Department of the Environment.

CONFIDENTIAL

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SCOTTISH OFFICE
WHITEHALL, LONDON SW1A 2AU

cc BG ✓

nbpm

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

3 June 1988

Dear Nicholas,

HOUSING (SCOTLAND) BILL: AMENDMENTS

Thank you for your letter of 18 May.

I note that my joint tenancy suggestion is likely to be difficult to implement in England and that, consequently, you have decided it will be simpler to introduce in the English Bill a new clause giving a limited right of succession to spouses of assured tenants.

In the circumstances, I think it would be most straightforward for me to follow suit for the Housing (Scotland) Bill. My officials will be in touch with yours to ensure consistency of drafting.

I note also that you are content with the proposed transitional arrangements for succession for those who have resided with a regulated tenant for six months by the date of commencement.

Incidentally, I understand that we are now likely to have our Lords Report stage on 23 June. I should therefore be grateful for your early comments on my view that in Scotland the provision on premiums which exists already for regulated tenancies should be extended to assured tenancies.

Copies of this letter go to recipients of yours.

Yours ever,
Malcolm Rifkind

MALCOLM RIFKIND

Hawug: Policy P. 10.



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Prime Minister

Content for the note to be published?

MR GRAY

2 June 1988

TRANSFER OF LOCAL AUTHORITY HOUSING

Yes no
2/6

Nicholas Ridley's minute of 31 May to the Prime Minister seeks agreement to an attached note of guidance to local authorities on large-scale voluntary disposals of their housing.

This version of the note takes into account earlier comments and now seems entirely satisfactory. We recommend that the Prime Minister agrees that it can now be published.

Peter Stredder

PETER STREDDER

CONFIDENTIAL



A GCB

Dominic

Oral you. let no discuss

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PRIME MINISTER

MEETING OF MINISTERS ON 9 JUNE
HOUSING IN RURAL AREAS
VILLAGE HOUSING AND NEW VILLAGES


M

DECISIONS

1. Mr Ridley wishes to publish a discussion document on Village Housing and New Villages, designed to stimulate a debate on planning for housing developments in rural areas. He also wishes to accompany this by a short paper on Housing in Rural Areas, which would be a package of announcements of Government action to encourage the provision of low cost housing in rural areas. Your main decision will be whether to authorise Mr Ridley to go ahead and publish these documents, under cover of an answer to an arranged Parliamentary Question.

2. If you do conclude that Mr Ridley should go ahead, you may wish the meeting to consider whether any special handling arrangements would be needed for briefing both the media and Government supporters in Parliament. You may also wish to consider whether the decision should be ratified by some larger group - either by discussion at E(A) or by a short oral report to Cabinet.

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3. If you conclude that the time is not right for an announcement, you will wish to consider whether Mr Ridley should be invited to do any further work on his proposals, or whether the issue should simply be put on ice for the time being.

BACKGROUND

4. Mr Ridley first canvassed the idea of a discussion document on village housing on 22 December last year. All the Ministers who commented supported him but you felt that any document on this issue would run a high risk of being distorted, and that there was no way of avoiding a very hostile response. At the meeting you held on 9 March, however, it was agreed that Mr Ridley should redraft the paper to take account of a number of points, and that it should be linked with the separate paper that Mr Ridley already planned on the encouragement of low cost housing in rural areas. These are the papers for which Mr Ridley now seeks approval.

5. In the meantime, as Mr Ridley recognises, the whole question of planning policy for rural areas has become increasingly lively from a political point of view. In particular, Mr Michael Heseltine has made himself prominent in opposing any increase in development in South East England, and Mr Jerry Wiggin has claimed that

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93 Conservative members share his concern to slow down the pace of rural development in the South. On 10 May Mr Ridley made a speech entitled "Planning and Development: Putting the Record Straight" to the Bow Group in which he set out the arguments for encouraging more development in rural areas outside the Green Belts, but he reported at Cabinet later in that week that the media had misrepresented his arguments without bothering to read them. Press articles now appear quite frequently about Mr Ridley's differences of view with his South East colleagues on these issues. Against that background, you will particularly wish to consider whether even a low key discussion document of the kind proposed is still a viable way of proceeding.

MAIN ISSUES

6. The central issue is that over much of the country the longstanding flight from rural areas has been reversed since the mid-1960s. Better roads and far wider car ownership are clearly important factors in this, but the increase in the rural population is only partly explicable by a rise in commuting. Many of the people who are moving to the country also work there, though not in the traditional rural pursuits. Encouraging farmers to diversify their activities, in accordance with the ALURE approach, will accelerate these trends. A suburban way of life, and a greater range of

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economic activity, is irreversibly penetrating rural areas, but the consequent demand for housing far outstrips the supply in many areas including the South East. Mr Ridley's papers address the impact of this pressure on housing costs, and the far more difficult question of generally expanding the provision of housing in rural areas.

(i) Housing in Rural Areas

7. The stock of low cost rented accommodation for rural workers has been depleted by the success of the right to buy policy in rural areas, where council housing has tended to be in detached, and often quite attractive, houses. House purchase prices in many rural areas are being forced up by people who are moving from London and other high cost housing areas, and who are able to afford prices far higher than those that can be met by low paid rural workers. (You may remember that Mr Walker and Mr King both emphasised this point at Cabinet on 12 May.)

8. In his short paper on "Housing in Rural Areas", Mr Ridley brings together a number of Government decisions - not all of them new - that will have the effect of easing access to low cost housing in rural areas. The sections on the role of the private sector and the


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role of local authorities do little more than restate previously announced policy, and the real substance of the paper is the announcement of increased funding for the National Agricultural Centres Rural Trust (NACRT) and a re-allocation of funds by the Housing Corporation that, taken together, would lead to a target figure of 600 housing association units being approved in rural areas in 1990/91, in comparison with 185 approvals in 1987/88. This is being contained within existing public expenditure programmes, in accordance with the conclusions of your meeting on 9 March, and the Chief Secretary, Treasury has agreed to it on that basis.

9. This, fairly modest, package is unlikely to attract any opposition from other Ministers, but you may wish to pause for a moment on its presentation. We understand that since the package was put together the NACRT unilaterally announced the part of it for which they are responsible, and that DOE were thus forced to issue a press release on that aspect of the proposals on 26 May. That leaves only part of the Housing Corporation's reallocation of funds as new material for Mr Ridley to announce, and you may wish to confirm that he still regards it as appropriate to issue a full paper on this subject.

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(ii) Village Housing and New Villages

10. This discussion paper raises far more difficult issues. As Mr Ridley made clear in his speech to the Bow Group, he starts from the proposition that the Government is doing everything it can to make the best use of urban land and bring derelict sites back into use, and the figures show that the proportion of new houses built on that kind of land is steadily increasing. Nevertheless the demand for expansion - in the South East and elsewhere - cannot be restricted to conurbations, and there is an imperative need to take some new land into development. The DOE's recent Household Projections show that, in the case of the South East, the increased demand is not due to any net immigration into the area but, rather, to the region's own economic activity and to social factors (children leaving home earlier: divorce: longevity) that lead to a higher proportion of separate household units. If the Green Belts and Areas of Outstanding Natural Beauty are to be respected (and Mr Ridley has been punctilious in respecting them) then the overall need for housing can only be met by developing some rural sites outside these specially protected areas.

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11. The discussion paper on village housing takes up the story at this point by arguing that the traditional planning doctrine of concentrating rural housing developments around a few key settlements has not only failed, but has acted to sterilise developments elsewhere. The paper therefore argues that a more flexible approach is needed, with an important place for sensitive expansion of existing villages, and possibly the creation of some new ones. An important part of the rationale for the key settlement policy was that it used to be believed that the necessary infrastructure could only be provided in that way, and that point was particularly considered at your meeting on 9 March. Paragraphs 32 and 37 of the present draft of the paper go into this in more depth and argue that developers could normally be expected to meet the main infrastructure costs themselves.

12. The logic of Mr Ridley's proposals is very persuasive, and the paper has been redrafted to meet all the main points raised at your meeting on 9 March. Nevertheless, any suggestion of encouraging new developments in villages is bound to be opposed by the people - and their representatives - who have successfully established themselves in a village environment and want to "pull up the drawbridge" to prevent anyone else following suit. Even among countryside

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interests, however, there is a range of opinions on this topic. While the Council for the Preservation of Rural England is implacably opposed to almost any development in the countryside, the Countryside Commission is probably more prepared to enter into a rational debate on the subject. There are different views among local authorities, too. Cambridgeshire and Leicestershire, for example, are proposing new villages in their structure plans. But in the heartlands of the home counties, Berkshire's opposition to rural development is much more typical.

13. The political currents do not all run in the same direction, even among Government supporters. While Mr Jerry Wiggin's SANE Planning Group, with its claimed 93 members, oppose any development outside urban areas, members for suburban seats tend to resent the pressure that such an approach puts on their localities. In a Commons debate on 16 May, for example, Mr Sydney Chapman proposed a new power to designate pleasant semi-rural suburbs as "special protection areas" to protect them from new developments that were out of scale or sympathy with their character.

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14. In considering the political aspects of this question you may particularly wish to bear in mind the position taken by Mr Michael Heseltine, whose interest in the subject seems to have been precipitated by a proposal by Consortium Developments for a new town (10 to 15,000 inhabitants) at Stone Bassett in his constituency. Consortium Developments had made an earlier similar proposal for a development at Tillingham Hall near Chelmsford, which Mr Ridley rejected on the grounds that it was in the Green Belt, though he made it clear that he was not opposed in principle to such developments outside the Green Belt. Mr Heseltine has now set himself up in complete opposition to any significant new settlements in the South of England. In recent speeches he has linked the issue with the need to improve the inner cities and with the alleged North/South divide, and has colourfully argued that meeting market pressures in Southern England would lead to the country being covered in concrete from Bedford to the sea.

15. A related issue is the DTI's apparent support for a further proposal by Consortium Developments for a new town at Foxley Wood, Hampshire. This was strongly criticised by Mr Jerry Wiggin when the planning inquiry opened yesterday.

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16. You may also wish to bear in mind the current situation on the planning figures for Berkshire, which Mr Ridley discussed at some length in his Bow Group speech as an example of how the planning system had worked in the South. In essence, Berkshire have put forward a structure plan containing a lower figure for new houses than was proposed in the earlier SERPLAN plan, to which they were a party. In view of the latest Population Projections and Household Projections, however, Mr Ridley is now proposing a figure that is significantly higher than Berkshire want, though it is still lower than the figures that were approved by Mr Heseltine when he was Environment Secretary. Mr Ridley's proposed modifications to the plan are now out for public comment and will certainly attract a good deal of political interest. (We understand that Mr Ridley has suggested in a recent letter to Lord Sandford (Chairman of SERPLAN) that the latest household projects suggest a figure of 610,000 new houses for the South East as a whole in the period 1991-2001, instead of the earlier figure of 460,000.)

17. You may also wish to bear in mind that Mr Heseltine has sought to bring the location of Government activity into the argument, suggesting that more should be done to push Government offices into the North. This point was touched on in discussion at Cabinet on

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12 May, when the Chancellor of the Exchequer commented that there was already a policy of relocating Government activities where that was justified on economic and management grounds.

18. Finally, Mr Ridley is undoubtedly incensed that his policies have been distorted as an attack on the Green Belt. In fact, he has been consistent in respecting the Green Belts as a check on ribbon development, and he is only advocating development outside those areas. Even if the meeting did not agree to the issue of the proposed Village Housing paper, Mr Ridley might well want to do something more to point to his record on the Green Belt. In practice, however, it might now be very difficult to deal with that topic in isolation.

THE VIEWS OF OTHER MINISTERS

19. As noted above, the Chief Secretary, Treasury is content with Mr Ridley's proposals, provided any costs are contained within existing provision. The Minister for Agriculture Fisheries and Food strongly supports the proposals, on grounds of rural diversification. At Cabinet on 12 May he commented that some villages might die if new life and development were not brought to them. The Secretary of State for Employment and the Chancellor of the Duchy of Lancaster are

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both content with the proposals, on grounds of diversification and stimulating the rural economy, provided that the issue is handled sensitively. The Secretary of State for Wales is content, though he does not want this exercise to extend to Wales. At Cabinet on 12 May he commented that people leaving Bristol were driving up house prices in the area around Newport.

HANDLING

20. Although the departmental Ministers present are all likely to be content, with varying degrees of enthusiasm, the main issue is clearly whether this is a propitious time to stimulate debate on these issues vis à vis the Government's supporters. After the Secretary of State for the Environment has introduced his paper, therefore, you may particularly wish to obtain the Paymaster General's views, and the Business Managers' comments on how the publication of these proposals might affect the conduct of other Government business.

S. Rochester
TP A J LANGDON
2 June 1988

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PRIME MINISTER

TRANSFER OF LOCAL AUTHORITY HOUSING

Since Commons Report Stage of the Housing Bill is approaching rapidly (it is provisionally scheduled for 9 June and two days in the following week) I am seeking confirmation that colleagues are content for me to publish guidelines to local authorities on large-scale voluntary disposals of their housing.

E(LF) agreed (E(LF)(88) 1st meeting) that it was necessary to table amendments to the Housing Bill to clarify my powers in relation to voluntary sales of council housing, because a number of authorities were preparing to apply for consent to dispose of their entire housing stocks. Subsequently, I circulated a paper (E(LF)(88)12) setting out the criteria which I would adopt in responding to local authority applications.

This paper was remitted to the small group of Ministers who met on 9 May to discuss housing policy. The group raised no objections to the criteria which I proposed though there has been separate correspondence with Malcolm Rifkind about the proposal for a Landlords' Code and our differences have been resolved. I have revised Paragraph 5 of the paper on 'criteria' accordingly.

John Moore wrote to me on 25 May asking that we should consider further the handling of the costs of transfers of this kind. I agree, and paragraph 19 of the guidelines indicates that we shall want to consider the costs and savings in each case. I also agree that we should allow authorities to make contractual arrangements concerning the use of housing specially adapted for the disabled and others with special needs, as we propose for the homeless. Paragraph 10 of the guidelines now refers to this.

ce BGA
 R2/6 CF
 CF - Done WRR attached
 Pse check for comments
 from Peter Stoddler



If colleagues agree, I would further propose to ensure that the purchasing landlord is committed to the provision of long-term rented housing by taking a power to control disposals of ex-council stock by the purchaser. This mirrors a provision which we have already taken for Tenants' Choice.

I hope colleagues will agree that I should publish the attached guidelines when I table the clarifying amendments in the week beginning 6 June.

I am copying this to other members of E(LF) and to Sir Robin Butler. In view of the tight timetable, I would be grateful for any responses by Monday 6 June.

A handwritten signature in dark ink, appearing to be the initials "NR".

NR

31 May 1988

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LARGE-SCALE VOLUNTARY TRANSFERS OF LOCAL AUTHORITY HOUSING TO PRIVATE BODIES

Introduction

1. A number of local housing authorities are considering selling all or much of their housing stock to new landlords. These transfers will be disposals for which the consent of the Secretary of State is needed under Sections 32 or 43 of the Housing Act 1985 or, if the terms of the disposal result in a gratuitous benefit given by the local authority to the new landlord, Section 25 of the Local Government Act 1988.

2. In principle, the Government welcomes these moves to transfer council housing into alternative ownership. They accord well with the enabling role which the Government envisages for local authorities in housing. This paper sets out the general policy which the Secretary of State proposes to adopt and criteria which he would normally expect to take into account when considering applications. However, he will wish to consider each application for his consent on its individual merits.

Types of body which might take over a council's housing

3. The Government considers it important that any body which want to purchase a council's housing should be:

- independent of the local authority;
- able to demonstrate that it is a responsible, stable organisation committed to the long-term business of rented housing;
- committed to providing a good service to tenants.

Consent is unlikely to be given if these features are not present.

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Independence

4. Three particular aspects of independence will be considered:
- Council Membership or shareholding in a purchasing body whether direct or indirect, should be clearly a minority interest. The Secretary of State is unlikely to approve a disposal where council membership or shareholding exceeded 20%.
 - Commercial agreements with the council. In general, consent would not be given if it were proposed that the council should provide services to the new landlord, or that the new landlords should provide services to the council. However, limited provision of services by the council may be accepted for transitional periods of no longer than a year, and preferably a shorter period. The Government generally considers it inconsistent with independence of the new landlord for the council to retain nomination rights, and would not expect the local authority to continue to maintain a waiting list where it disposed of its entire housing stock. But it would be acceptable for the council to enter into contracts with landlords in order to fulfil statutory duties to secure accommodation, primarily for those accepted as homeless (see paragraphs 10-12 below).
 - Selection of staff by the new landlord should be at its own discretion. It should not be for the council to specify which of its staff are to be offered employment by the new owner.

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Long term commitment to low cost rented housing market

5. Landlords taking over council housing on a large scale would be expected to demonstrate that they were stable and responsible organisations with a long-term commitment to the provision of low cost rented housing for those who would otherwise be unlikely to be able to house themselves adequately. The Secretary of State would normally expect councils to obtain undertakings from the purchaser that he would:

- take account of housing demand and conditions in the area in granting tenancies and managing their stock, and publish the basis on which tenants will be selected;
- normally relet housing which became vacant, at rents set and maintained at levels within the reach of those in low-paid employment.

Monopoly and competition

6. The Secretary of State does not wish to see large public housing monopolies converted into large private housing monopolies. To ensure that the management problems which beset over-large housing organisations are not perpetuated, he will in principle prefer local authorities to dispose of their stock to more than one purchaser. This is also in line with the Government's objective of providing a wider choice in rented housing. Even in the area of a small housing authority, it would be undesirable if a disposal created a single new predominant landlord in the area. The key point is that, so far as reasonably possible, there should be genuine competition in the local housing market.

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7. Consent is therefore, in general, unlikely to be given to a disposal to a single purchaser of more than 5,000-10,000 properties. Authorities within that range which wish to sell their stock to a single purchaser will need to demonstrate that there are clear advantages in doing so. For authorities with a stock of less than 5,000 properties, applications should at least show that the authority has considered the scope for transfer to more than one purchaser.

Protecting the interests of existing tenants

Consultation with tenants

8. Under Section 6 of the Housing and Planning Act 1986, existing secure tenants of the local authority must be consulted before consent is given; and the disposal must not go ahead if a majority of the tenants affected oppose it. This Section does not apply to disposals to registered housing associations (although the current Housing Bill will change this) but the Secretary of State will normally expect the same rules to be followed even in these cases. The Department of the Environment and the Welsh Office have issued a circular (6/88) which explains how Section 6 procedures should be operated.

Protection of existing tenants' right to buy

9. There will be a statutory preserved right to buy following commencement of Section 8 of the Housing and Planning Act 1986, which is expected to follow enactment of the Housing Bill. Meanwhile, the Secretary of State would normally expect the purchaser to offer transferring tenants a right to purchase their homes, modelled as closely as possible on the statutory right to buy.

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The local housing authority's continuing statutory obligations

10. The authority should be able to demonstrate in its application for consent that it will satisfactorily discharge its continuing statutory obligations, and in particular, its duties towards those accepted as homeless under Part III of the Housing Act 1985 ("Housing the homeless") and under Section 39 of the Land Compensation Act 1973, and Section 28 of the Rent (Agriculture) Act 1976. This might be done by entering into contracts with landlords in the area (which might well include the purchasers of the council stock) to provide the necessary accommodation. Similar arrangements would also be acceptable in relation to housing adapted for disabled people or those with special needs.

11. Apart from these duties, the Secretary of State takes the view that it would not be necessary or appropriate for the council to retain control of access to its former housing. It would be inconsistent with the independence of the new landlord for the council to retain nomination rights. The Secretary of State will take the general line that he would not grant consent if the council proposed to retain control of access to some of its former stock, except as part of arrangements necessary to carry out the statutory duties listed in para 10 above.

12. This means that, where there is a disposal of an authority's stock, there will be no need for the local authority to maintain a waiting list. The new landlords could do so. If there are several purchasers, it would obviously be practical to operate a joint waiting list or referral service.

Terms of sale

13. Sales should take place at market value subject to tenancy with an allowance for any backlog of repairs which will need to be tackled. The local authority will be asked to provide the Secretary of State with the information on which the valuation was based. If the Secretary of State is not satisfied about the proposed price, the District Valuer would value the stock.

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14. Purchasers should look to the private sector for the finance to buy the housing. If the purchaser demonstrates that the amount which can be raised privately is insufficient to meet the purchase price in full, the Secretary of State may be prepared to agree that a residual portion of the purchase price is left outstanding on mortgage to the council, paying their normal rate of interest. Any element financed by such an arrangement would need to be on a strictly commercial basis and without prejudice to the independence of the purchaser from the council. The purchaser would be required to produce evidence that the maximum private finance had been obtained. It may be necessary to apply a maximum limit on the proportion which can be financed by a council mortgage.

15. It is possible that financial backers would not be prepared to lend on the prospect of future sales (such as Right to Buy sales). It may be acceptable to enter into an arrangement whereby the purchaser instead makes supplementary payments to the council when properties are sold.

Disposals by the purchaser

16. The Government will wish to see a continuing stock of rented accommodation in the area after the council disposes of its stock. The Secretary of State proposes to take a power in the Housing Bill to control disposal of property by the new landlord, by requiring his consent to any disposal, whether for further letting or for owner occupation (other than under the preserved right to buy). Disposals may be allowed where there is a dearth of demand for rented housing of the kind concerned, or where the landlord wishes to rationalise his holdings.

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Other financial factors

17. The Government is developing a new financial regime for local authority housing, to be introduced in 1990. The present intention is that in the intervening period, existing capital controls will apply to receipts generated by large-scale disposals except that there will be a requirement to make repayment of outstanding loan debt the first call on sales proceeds.

18. The existing housing subsidy system was not designed to cope with the circumstance of a local authority disposing of its entire housing stock. The Minister for Housing and Planning announced a review of the housing subsidy rules as they apply when a council sells all or a significant part of its housing. Local authorities pursuing disposals in this financial year may be subject to any changes made to the local authority subsidy system.

19. In all sales, government will need to consider the likely costs and savings to the Exchequer and Public Expenditure, including housing benefit, in deciding whether a particular sale may take place.

Mobility and tenant exchanges

20. Participation by new landlords of former council housing in the National Mobility Scheme, and where appropriate, the Tenants Exchange Scheme, is strongly encouraged.

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Conflicts of interests

21. There may be cases in which senior and other staff of the local authority have a personal interest in a body proposing to acquire the council's housing. A risk of conflict of interest could arise, and it will be important for councils to take steps to avoid impropriety, or the appearance of impropriety, at every stage both before and after the transfer.

Department of the Environment
25 May 1988

CONFIDENTIAL

SUBJECT

cc MASTER



OFF JC.
MEETING RECORD

10 DOWNING STREET
LONDON SW1A 2AA

27 May 1988

From the Private Secretary

Dear Roger,

HOUSING POLICY

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

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

A New Financial Regime for Local Authority Housing

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

In discussion the following main points were made:

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

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

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

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

Implications of a scheme of Flexi-Ownership

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

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

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

In discussion the following main points were made:-

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

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

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

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

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

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

Yam,

Paul

PAUL GRAY

Roger Bright, Esq.,
Department of the Environment.

Letting council tenants buy their homes easily and cheaply isn't a political pipedream. There is a sound and simple way in which even the poorest can become home-owners, as CHRISTOPHER MONCKTON explains

A bargain for the

poor that profits everyone

taxpayer a fortune, without breaking the Treasury's tight constraints on public spending and without locking former tenants into obligations which they might not in future be able to meet.

Taxpayer

Starting with Peter Walker's basic concept and making a few simple changes, it is entirely possible to give even the poorest recipient of social security the chance to own his home at no extra cost to himself and, rather

surprisingly, at no extra cost to the taxpayer either. Here is how:

● Step 1: scrap the present cumbersome system of valuation. At present, tenants who want to buy have to wait months and sometimes years to get the council's valuer to agree a sale price for their home.

Benefit

Residential property in the commercial rented market is valued simply by taking the annual rental income and multiplying it by roughly 20. It would be sensible to use the same system for valuing council houses. To the council, after all, the house is only worth only what it brings in by way of rent.

● Step 2: pay the tenant, if he is poor, exactly the same contribution in housing benefit as before. If the State was paying his full rent, it should continue to pay the equivalent amount. If it paid a proportion before, it should go on paying it.

This means abandoning the artificial distinction in the existing housing benefit

RICHARD RICH, the arch-creep of the Tudor age who persecuted himself to ensure the conviction and ultimate martyrdom of Sir Thomas More, was rewarded for his lies with the job of Attorney-General for Wales, and was not heard from again.

Peter Walker, the arch-Welsh of the Tory cabinet, was exiled to Wales much as Jim Prior, the previous title-holder, had been banished to Ireland. Unlike Richard Rich, Peter Walker has been heard from again.

Though some of his political views differ from those of the Prime Minister, he shares her delight in good ideas, and he likes to air them. Many years ago, he wrote a pamphlet for the Tory Reform Group, putting forward the radical proposal that council houses should be given away to their tenants.

Nothing came of that one, because the Treasury takes a liverish view of giving away capital assets to the citizen at no charge. Now, however, Peter Walker has revived the idea in a new form. He proposes, in outline, that any tenant, however poor, could put down a deposit of just £1 and start buying his home.

Then each year's rent, whether paid by the tenant himself or by the State in housing benefit on his behalf, would be counted as though it were a mortgage payment. At the end of 20 years the tenant would own his home.

This is nearly the right policy, but not quite. First, as far as the Treasury and its First Lord are concerned, it goes just a little too far toward giving the tenant summat for now.

Discounts

The Treasury has long held the sensible view that the taxpayer should not be in the business of making free gifts of capital to those citizens (however deserving) whom the Government of the day chooses to favour.

Yet the Government's present policy of selling council houses to their tenants is already very close to what Peter Walker has proposed.

The discounts available to council tenants of long standing can save them as 70 per cent of the purchase price, and even the average discount is close to 50 per cent.



Peter Walker... reviving a good idea

And that is a hefty capital donation from the Treasury.

So the purely theoretical objection to Peter Walker's proposal has already been overcome. But there is a practical objection.

Is it wise to transfer the ownership of a council house to a family living solely on social security, when they might face major repair bills in the future which they could not afford to meet?

A council tenant has all his repairs done at the expense of the ratepayer; an owner-occupier has to pay his own way. This is a potentially serious difficulty: it would be

unfair to lure tenants into ownership and then saddle them with huge bills for repairs.

Despite these drawbacks in Peter Walker's scheme, William Waldegrave, the Housing Minister, is strongly in favour of finding a sensible way to give even the most disadvantaged council tenants the chance to have a stake in the capital wealth of Britain by owning their homes.

And the Policy Unit at 10 Downing Street has been studying Peter Walker's idea to see whether it can be made to work without costing the

Mortgage defaults 'increasing'

BY STEPHEN FIDLER, EUROMARKETS CORRESPONDENT

48 =

A PICTURE of growing instability in British house prices and rising numbers of defaults on home mortgages is painted in a report published yesterday by Moody's Investors Service, the US credit rating agency.

The agency says growing owner occupation in Britain means that financially less able home buyers are entering the mortgage market at a time when home prices are rising at double-digit rates.

First-time buyers are stretching budgets to afford their rising mortgage payments and buyers

require less and less of their own equity to purchase a home. This has resulted in a growth in mortgage arrears and default rates since the late 1970s, a trend which Moody's says it expects to continue and which will be intensified by the growing competition among mortgage lenders.

House mortgages in repossession or in arrears of more than six months rose from about 10,000 in 1979 to 75,000 last year, the agency says.

However, it says losses incurred by mortgage lenders have been low because of the

rapid rise in house prices. "Moody's believes, however, that home prices are becoming increasingly unstable," the report says.

Increased mortgage demand and rising personal incomes have contributed to price rises but speculative purchases have added to house price instability.

"In a recessionary climate," says the report, "home prices may stagnate or even decline, exposing lenders to substantially higher levels of default rates and subsequent losses than have been experienced in the past."

regulations. Described as a mortgage interest repayments (while the State will sometimes help with) and capital repayments (which it will not help with).

● Step 3: let the tenant take out a low-start, "index-linked" mortgage on his home, to the full amount of the sale price as calculated in Step 1, less any discount entitlement under the existing Right-to-Buy legislation.

The advantage of an index-linked mortgage is that unlike ordinary mortgages, it starts with low repayments that rise more or less in line with inflation. As a result, many tenants would find that, throughout the period of the mortgage, their loan repayments would actually be cheaper—about £5 a week less—than what they would have paid in rent.

● Step 4: Oblige the home-buyer to invest the £5 a week in a with-profits insurance fund, run by the private sector but approved by the Government, so that the profits would be used for minor repairs and the insurance element would take care of major repairs.

The remarkable thing about this scheme is that it benefits everybody.

The former tenant benefits because, by paying no more each week than he formerly paid in rent, he ends up owning his home. And once he has paid off the mortgage, his weekly bill for housing will drop dramatically.

Insurance

The local authority benefits because it gets an upfront lump sum for its council house, and it can then use that sum for renovating its existing stock or reducing the outstanding debt on it. Also, it no longer has to pay for repairs or management.

The Treasury benefits because, although it goes on supporting the poorer home-buyer while the mortgage is still running, at the end of the loan period its contributions fall to just £5 a week, enough to continue the purchaser's insurance against future repairs.

The reason why there are no losers is simple. The council housing stock of Britain is an enormous capital asset, but it is an asset that is very badly managed and, therefore, financially unproductive.

The proposed scheme encourages the individual to borrow against the now-frozen capital asset in which he lives, thereby releasing enough extra wealth to make him, the local authority and the State better off.

Thus, what appears to be a Socialist redistribution of wealth in favour of the poor is also a sound, capitalistic exploitation of what is now the country's largest wasting asset—the stock of council houses.

From the misty fastnesses of Wales, Peter Walker may have started something. Which is a lot more than can be said for Richard Rich, who merely finished somebody.

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RE: letter of 31/5/88

cc'd from Nicholas Ridley

to the Prime Minister,

We think the attachment
may have been omitted.

~~But~~ therefore copies
are now enclosed.

PRIME MINISTER

TRANSFER OF LOCAL AUTHORITY HOUSING

Since Commons Report Stage of the Housing Bill is approaching rapidly (it is provisionally scheduled for 9 June and two days in the following week) I am seeking confirmation that colleagues are content for me to publish guidelines to local authorities on large-scale voluntary disposals of their housing.

E(LF) agreed (E(LF)(88) 1st meeting) that it was necessary to table amendments to the Housing Bill to clarify my powers in relation to voluntary sales of council housing, because a number of authorities were preparing to apply for consent to dispose of their entire housing stocks. Subsequently, I circulated a paper (E(LF)(88)12) setting out the criteria which I would adopt in responding to local authority applications.

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If colleagues agree, I would further propose to ensure that the purchasing landlord is committed to the provision of long-term rented housing by taking a power to control disposals of ex-council stock by the purchaser. This mirrors a provision which we have already taken for Tenants' Choice.

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NR

31 May 1988

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LARGE-SCALE VOLUNTARY TRANSFERS OF LOCAL AUTHORITY HOUSING TO PRIVATE BODIES

Introduction

1. A number of local housing authorities are considering selling all or much of their housing stock to new landlords. These transfers will be disposals for which the consent of the Secretary of State is needed under Sections 32 or 43 of the Housing Act 1985 or, if the terms of the disposal result in a gratuitous benefit given by the local authority to the new landlord, Section 25 of the Local Government Act 1988.

2. In principle, the Government welcomes these moves to transfer council housing into alternative ownership. They accord well with the enabling role which the Government envisages for local authorities in housing. This paper sets out the general policy which the Secretary of State proposes to adopt and criteria which he would normally expect to take into account when considering applications. However, he will wish to consider each application for his consent on its individual merits.

Types of body which might take over a council's housing

3. The Government considers it important that any body which want to purchase a council's housing should be:

- independent of the local authority;
- able to demonstrate that it is a responsible, stable organisation committed to the long-term business of rented housing;
- committed to providing a good service to tenants.

Consent is unlikely to be given if these features are not present.

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Independence

4. Three particular aspects of independence will be considered:
- Council Membership or shareholding in a purchasing body whether direct or indirect, should be clearly a minority interest. The Secretary of State is unlikely to approve a disposal where council membership or shareholding exceeded 20%.
 - Commercial agreements with the council. In general, consent would not be given if it were proposed that the council should provide services to the new landlord, or that the new landlords should provide services to the council. However, limited provision of services by the council may be accepted for transitional periods of no longer than a year, and preferably a shorter period. The Government generally considers it inconsistent with independence of the new landlord for the council to retain nomination rights, and would not expect the local authority to continue to maintain a waiting list where it disposed of its entire housing stock. But it would be acceptable for the council to enter into contracts with landlords in order to fulfil statutory duties to secure accommodation, primarily for those accepted as homeless (see paragraphs 10-12 below).
 - Selection of staff by the new landlord should be at its own discretion. It should not be for the council to specify which of its staff are to be offered employment by the new owner.

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Long term commitment to low cost rented housing market

5. Landlords taking over council housing on a large scale would be expected to demonstrate that they were stable and responsible organisations with a long-term commitment to the provision of low cost rented housing for those who would otherwise be unlikely to be able to house themselves adequately. The Secretary of State would normally expect councils to obtain undertakings from the purchaser that he would:

- take account of housing demand and conditions in the area in granting tenancies and managing their stock, and publish the basis on which tenants will be selected;
- normally relet housing which became vacant, at rents set and maintained at levels within the reach of those in low-paid employment.

Monopoly and competition

6. The Secretary of State does not wish to see large public housing monopolies converted into large private housing monopolies. To ensure that the management problems which beset over-large housing organisations are not perpetuated, he will in principle prefer local authorities to dispose of their stock to more than one purchaser. This is also in line with the Government's objective of providing a wider choice in rented housing. Even in the area of a small housing authority, it would be undesirable if a disposal created a single new predominant landlord in the area. The key point is that, so far as reasonably possible, there should be genuine competition in the local housing market.

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7. Consent is therefore, in general, unlikely to be given to a disposal to a single purchaser of more than 5,000-10,000 properties. Authorities within that range which wish to sell their stock to a single purchaser will need to demonstrate that there are clear advantages in doing so. For authorities with a stock of less than 5,000 properties, applications should at least show that the authority has considered the scope for transfer to more than one purchaser.

Protecting the interests of existing tenants

Consultation with tenants

8. Under Section 6 of the Housing and Planning Act 1986, existing secure tenants of the local authority must be consulted before consent is given; and the disposal must not go ahead if a majority of the tenants affected oppose it. This Section does not apply to disposals to registered housing associations (although the current Housing Bill will change this) but the Secretary of State will normally expect the same rules to be followed even in these cases. The Department of the Environment and the Welsh Office have issued a circular (6/88) which explains how Section 6 procedures should be operated.

Protection of existing tenants' right to buy

9. There will be a statutory preserved right to buy following commencement of Section 8 of the Housing and Planning Act 1986, which is expected to follow enactment of the Housing Bill. Meanwhile, the Secretary of State would normally expect the purchaser to offer transferring tenants a right to purchase their homes, modelled as closely as possible on the statutory right to buy.

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The local housing authority's continuing statutory obligations

10. The authority should be able to demonstrate in its application for consent that it will satisfactorily discharge its continuing statutory obligations, and in particular, its duties towards those accepted as homeless under Part III of the Housing Act 1985 ("Housing the homeless") and under Section 39 of the Land Compensation Act 1973, and Section 28 of the Rent (Agriculture) Act 1976. This might be done by entering into contracts with landlords in the area (which might well include the purchasers of the council stock) to provide the necessary accommodation.

11. Apart from these duties, the Secretary of State takes the view that it would not be necessary or appropriate for the council to retain control of access to its former housing. It would be inconsistent with the independence of the new landlord for the council to retain nomination rights. The Secretary of State will take the general line that he would not grant consent if the council proposed to retain control of access to some of its former stock, except as part of arrangements necessary to carry out the statutory duties listed in para 10 above.

12. This means that, where there is a disposal of an authority's stock, there will be no need for the local authority to maintain a waiting list. The new landlords could do so. If there are several purchasers, it would obviously be practical to operate a joint waiting list or referral service.

Terms of sale

13. Sales should take place at market value subject to tenancy with an allowance for any backlog of repairs which will need to be tackled. The local authority will be asked to provide the Secretary of State with the information on which the valuation was based. If the Secretary of State is not satisfied about the proposed price, the District Valuer would value the stock.

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14. Purchasers should look to the private sector for the finance to buy the housing. If the purchaser demonstrates that the amount which can be raised privately is insufficient to meet the purchase price in full, the Secretary of State may be prepared to agree that a residual portion of the purchase price is left outstanding on mortgage to the council, paying their normal rate of interest. Any element financed by such an arrangement would need to be on a strictly commercial basis and without prejudice to the independence of the purchaser from the council. The purchaser would be required to produce evidence that the maximum private finance had been obtained. It may be necessary to apply a maximum limit on the proportion which can be financed by a council mortgage.

15. It is possible that financial backers would not be prepared to lend on the prospect of future sales (such as Right to Buy sales). It may be acceptable to enter into an arrangement whereby the purchaser instead makes supplementary payments to the council when properties are sold.

Disposals by the purchaser

16. The Government will wish to see a continuing stock of rented accommodation in the area after the council disposes of its stock. The Secretary of State proposes to take a power in the Housing Bill to control disposal of property by the new landlord, by requiring his consent to any disposal, whether for further letting or for owner occupation (other than under the preserved right to buy). Disposals may be allowed where there is a dearth of demand for rented housing of the kind concerned, or where the landlord wishes to rationalise his holdings.

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Other financial factors

17. The Government is developing a new financial regime for local authority housing, to be introduced in 1990. The present intention is that in the intervening period, existing capital controls will apply to receipts generated by large-scale disposals except that there will be a requirement to make repayment of outstanding loan debt the first call on sales proceeds.

18. The existing housing subsidy system was not designed to cope with the circumstance of a local authority disposing of its entire housing stock. The Minister for Housing and Planning announced a review of the housing subsidy rules as they apply when a council sells all or a significant part of its housing. Local authorities pursuing disposals in this financial year may be subject to any changes made to the local authority subsidy system.

19. In all sales, government will need to consider the likely costs and savings to the Exchequer and Public Expenditure, including housing benefit, in deciding whether a particular sale may take place.

Mobility and tenant exchanges

20. Participation by new landlords of former council housing in the National Mobility Scheme, and where appropriate, the Tenants Exchange Scheme, is strongly encouraged.

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Conflicts of interests

21. There may be cases in which senior and other staff of the local authority have a personal interest in a body proposing to acquire the council's housing. A risk of conflict of interest could arise, and it will be important for councils to take steps to avoid impropriety, or the appearance of impropriety, at every stage both before and after the transfer.

Department of the Environment

25 May 1988

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FLAG B

DRAFT LETTER TO LOCAL AUTHORITIES

LARGE SCALE VOLUNTARY TRANSFERS
OF LOCAL AUTHORITY HOUSING TO PRIVATE BODIES

1. Some local authorities have recently been exploring the possibility of selling all or a substantial part of their housing stock to private bodies. The Government is sympathetic in principle to this, as long as the disposal takes place on the right terms.
2. Disposals of local authority housing require the consent of the Secretary of State. Authorities may find it helpful to have the attached paper which provides guidelines on the criteria which the Secretary of State has in mind to adopt when considering applications for consent to such disposals.
3. Any enquiries on this subject should be addressed in the first instance to Graham Duncan, Room N11/17, Department of the Environment, 2 Marsham Street, London SW1P 3EB.

RICHARD GIBSON
Assistant Secretary

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DRAFT INSPIRED PQ

Question:

To ask the Secretary of State for the Environment, whether he will outline the Government's attitude to the plans of some local authorities to dispose of their entire housing stocks.

Answer:

In principle, I welcome proposals by local authorities to transfer their housing into alternative ownership, as long as the terms are right.

I have today sent guidelines to local authorities, describing the terms on which I might be prepared to grant consent to an application from a local authority to dispose of all or a substantial part of its housing. Copies of the guidelines have been placed in the Library of the House.



Housing - Policy P112



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P 03129

PRIME MINISTER

A NEW FINANCIAL REGIME FOR LOCAL AUTHORITY HOUSING
[Note by the Environment Secretary]

DECISIONS

1. Mr Ridley's paper fulfils the remit from the Group's discussion on 9 May to consider a new approach to the revenue aspects of the financial regime for local authority housing. The housing revenue account would still be ring fenced. But the costs of rent rebates for council tenants would be charged to the housing account: in other words, only net rents actually paid by tenants would be credited as income to the account. This would put nearly all housing accounts into deficit, and there would be a new Exchequer subsidy to meet the deficits, replacing existing housing subsidy, rate support grant support for council housing and the Exchequer's contribution to rent rebates.

2. Mr Ridley's paper discusses three variants of this basic approach:

i. version 1, under which the ring fence would be absolute, and any local authority still making a surplus under the new rules would have to retain it in the housing account;

ii. version 2, under which authorities still capable of making a surplus would be allowed (but not compelled) to transfer it to the General Fund (GF) to support other services and reduce the community charge;

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iii. version 3, under which surplus authorities would be obliged to transfer a prescribed amount to the GF (calculated according to the same rules as the new housing subsidy): they would also be allowed to transfer additional amounts voluntarily.

Mr Ridley recommends version 3, which would put pressure on all authorities to run their housing accounts efficiently.

3. You will want to consider two main issues:

i. whether to endorse the new approach as the basis for legislation on the financial regime in next Session's Housing and Local Government Bill;

ii. whether those authorities which can still make surpluses should be required (rather than just permitted) to transfer them to the General Fund.

If answers to these questions are agreed, the next step will be to invite the Secretary of State to report back to E(LF) with a paper setting out the agreed approach.

BACKGROUND

4. Mr Ridley made proposals for the revenue aspects of the new financial regime at E(LF) on 24 March and 3 May (E(LF)(88)2nd and 5th Meetings). Those proposals retained the present structure of the housing revenue accounts (HRA), including the present system under which the Exchequer pays the great majority of housing benefit costs and gross rents are credited to the HRA. But the following changes would have been made:

i. the account would have been ring fenced, and a new subsidy system introduced to replace both the existing subsidy and rate fund contributions (RFCs) to the HRA;

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ii. authorities with the capacity to make a surplus on the HRA would have been obliged to make a Required Minimum Payment (RMP) of that amount to the General Fund (GF);

iii. RMPs would have been clawed back to the Exchequer by abatement of other grants to the authority.

5. E(LF) accepted the case for action to tackle the defects of the present financial regime: the mismatch between large deficits on housing in some areas and large potential surpluses in others; the resulting variations in rent levels; and the nonsensical situation under which rent increases actually add to Exchequer spending (because additional housing benefit costs outweigh savings in housing subsidy). But they were concerned that the proposal to claw RMPs back to the Exchequer would be exceptionally controversial, particularly with shire district councils. At your meeting on 9 May you therefore asked Mr Ridley to consider the alternative approach of making rent rebates a first charge on the potential surpluses.

MAIN ISSUES

6. The new approach has substantial advantages compared to simply ring fencing the housing account under the present financial regime:

i. it generates public expenditure savings by using surpluses to meet housing benefit costs. On the figures in Annex 4, Exchequer costs in 2000/1 under simple ring fencing could be £2685m, but under the new approach only £1531m;

ii. it puts nearly all authorities into deficit (at least well into the next decade) and therefore within the scope of subsidy pressures. Figures produced by DOE suggest that no more than 7 authorities might be in surplus in 1990/91, rising to only 12 by 1994/95;

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iii. it ends the present situation under which rent increases add to Exchequer spending.

7. The disadvantages of the new approach are presentational. Critics may claim that charging rent rebates to the housing account amounts to requiring tenants who pay full rents, even if they are not themselves very well off, to meet the costs of housing benefit for even poorer tenants. It might also be resisted by those authorities which have been generating surpluses and using them to finance rate fund services: most would now lose this source of revenue.

8. These problems could probably be mitigated if the new approach was presented in the right way. It would be important not to suggest that better off tenants would now meet rent rebate costs. Instead it could be stressed that the Government would be looking at the net rents which tenants could afford to pay: nothing in the case of the poorest tenants, a graduated scale (reflecting the housing benefit taper) as incomes rose, and full rents at the top end. Each authority's overall need for subsidy would then be calculated taking these net rents into account. This would simplify and rationalise the present Exchequer support to both bricks and mortar (housing subsidy) and tenants (housing benefit).

9. You will want to decide whether to endorse the new approach as the basis for legislation next Session.

Treatment of remaining surpluses

10. A few authorities would remain in surplus under the new regime: perhaps seven in 1990/91. More could be expected to come into surplus later, although if rent increases were modest this might be a fairly slow process, and flexi-ownership may, if adopted, tend to reduce the surplus problem. As a minimum, it seems reasonable that such authorities should retain the freedom to make voluntary transfers to the General Fund (GF) - version 2 in Mr Ridley's note.

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11. But Mr Ridley recommends the further step of requiring authorities to make such transfers (version 3). This is a return to his proposal for Required Minimum Payments (RMPs), although he does not now suggest any arrangements to claw surpluses back to the Exchequer. The advantage would be that all authorities would be under pressure to meet Government guidelines on rents and management and maintenance (M&M) expenditure: surpluses could not be used to hold down rents or engage in profligate levels of maintenance.

12. The disadvantage is that the obligatory transfer of surpluses might still prove controversial with the authorities affected, and possibly with a wider group who believed they might eventually be affected. The small number of authorities involved might reduce this problem, and it could be argued that it would be best to introduce such a provision now and let it take effect slowly over the next decade. But this argument also runs the other way: since so few authorities are likely to be involved, and the potential surpluses are so small (perhaps £12m in 1994/95), it may not be worth courting opposition by including an additional controversial provision in next Session's Bill. It could always be introduced later, when the new financial regime is in place.

13. You will want to consider whether the new financial regime should include from the outset an obligation for authorities which can still make surpluses to transfer them to the General Fund.

VIEWS OF OTHER MINISTERS

14. The Chief Secretary, Treasury is likely to support the new approach to the financial regime. He is also likely to support Mr Ridley's preference for version 3, which would put pressure on the remaining surplus authorities to meet Government guidelines on rents and M&M spending. The Social Services Secretary is also likely to accept Mr Ridley's proposals, subject to further detailed work on the implications for the Housing Benefit system. The Secretary of State for Wales is also likely to accept the merits of

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the new approach, although he may question the need for compulsory transfer of surpluses (version 3), particularly if his flexi-ownership proposals are accepted.

R.T.J.

R T J WILSON
Cabinet Office

25 May 1988

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PRIME MINISTER

FLEXI-OWNERSHIP

It may be helpful if I comment on Nicholas Ridley's minute to you of 25 May before our discussion.

Nicholas is saying that households whose incomes are low enough to qualify for housing benefit should not be owner-occupiers because they cannot cope with the cost of routine house maintenance. But there are 1,750,000 households in owner-occupation now whose income is such that they would be on housing benefit if they were tenants. I do not think any of us would wish to municipalize their homes on the grounds of their assumed inability to cope. Moreover, while £4 per week is a reasonable average figure to take as the cash equivalent cost of routine maintenance, there is nothing in my proposals which actually requires the flexi-owner to find this sum out of his or her own pocket.

Many council tenants on full housing benefit are elderly, with a large equity entitlement under the flexi-ownership scheme: there is every incentive for their families to help out with home maintenance to help secure a valuable asset. Younger flexi-owners can keep down maintenance costs through D.I.Y: it costs hundreds of pounds to have a house repaired professionally but only a few tens of pounds for materials if you are prepared to do it yourself. People do not cease to aspire to home-ownership just because they are poor: and I am convinced that many now on housing benefit would gladly opt for flexi-ownership in full knowledge of their maintenance responsibilities. There is no comparison with the recent row about housing benefit 'losers': there we were restricting entitlement, whereas under flexi-ownership, people will voluntarily opt out of entitlement.

As for the financial implications of the policy, the Cabinet Office paper demonstrates substantial long-term savings even on the wildly unfavourable assumptions exemplified in Case B. On the more favourable assumptions used in Case A the long-term savings are very large indeed, and the short term pay-back starts as soon as the second year of the policy.



I note that Nicholas Ridley does not seek to argue that houses going into flexi-ownership (or indeed being taken out of the rented stock by the enhanced right to buy policy which he suggests) should be replaced in the social rented sector. Line 14 of Annex D to the Cabinet Office paper shows the short term financial effect of the flexi-ownership policy without replacement. It demonstrates that even in the short term there are public expenditure savings on all groups taking up flexi-ownership save for those who can afford the right to buy (and even for the latter group line 17 of Annex D shows a long term saving: because receipts are not lost when right to buy purchasers switch to flexi-ownership, they are merely deferred and during the period of deferral increase in line with house prices).

But I share the concern that there should not be a major switch from the right to buy into flexi-ownership, and the scheme has been designed from the outset to avoid that happening: that is why the flexi-ownership equity entitlement is set 5 percentage points behind the RTB discount. Clearly, it is a matter of political judgement what potential right to buy purchasers reaction will be, faced with the option of the flexi-ownership scheme. I myself believe that those who aspire to own their home aspire to eventually own it outright. The right-to-buy purchaser knows that after 20 years if mortgage payments (which become progressively less onerous as his income rises with inflation) the house will be entirely his. In the meantime, he has benefited from the entire equity growth in the house. The flexi-owner starts 5 percentage points behind, and has to pay for additional equity at current market prices. He cannot be sure that his income will rise as fast as house prices: he may never be able to achieve outright ownership, or only at greater cost than through conventional purchase. I believe therefore that switching from Right to Buy will in practice be marginal, and that the financial as well as political gains from the introduction of flexi-ownership would be great.

Our existing right to buy policy is set to decline in importance anyway: DOE's forecast of sales of houses is

1989/90	1990/91	1991/92	1992/93
75,000	65,000	55,000	50,000

/...




Receipts will decline with sales. To ask officials to find new incentives to take up conventional right to buy, as Nicholas suggests, is mining an exhausted seam: we did just that in May last year and got only the modest measures in the current Housing Bill. We need a radical new measure in next year's Housing Bill to encourage home-ownership and self-reliance amongst the tenants whom the right to buy has failed to reach.

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

25 May 1988

PW


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P 03127

PRIME MINISTER

HOUSING POLICY: IMPLICATIONS OF A SCHEME OF FLEXI-OWNERSHIP

[Note by the Cabinet Office;
Minute from the Secretary of State for the Environment of 25 May]
and S/S Wides of 25 May.

DECISIONS

1. Following discussion in the Ministerial Group over dinner on 9 May officials were asked urgently to work up proposals for a scheme of flexi-ownership, including a financial assessment. The Cabinet Office Note fulfils that remit.

2. The flexi-ownership proposals have survived critical scrutiny by officials, particularly from the Department of the Environment and Treasury, rather well. No overwhelming objections have emerged. There are, however, a number of factors, none of them decisive in themselves, which you may wish to weigh up before deciding whether the scheme should be taken further. In particular, Mr Ridley's note of today's date emphasises the risk that flexi-ownership would reduce Right-to-Buy receipts, and argues that it is unrealistic to look for savings through the poorest local authority tenants repairing their own homes. The Chief Secretary may draw attention to the possibility that flexi-ownership would give rise to short-term public expenditure costs.

3. On the non-financial side, you may wish to concentrate discussion on the five main points set out in paragraphs 6 to 10 of the Cabinet Office note.

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i. Tenants in flats might not find flexi-ownership attractive, mainly because of service charges. This has happened with the Right to Buy.

ii. There are arguments either way about whether flexi-owners would keep their property in a good state of repair. It really boils down to a judgement about whether people would rise to the challenges of home ownership or not.

iii. Flexi-ownership might divert some tenants from the Right-to-Buy scheme if they preferred cash in hand to long-term capital appreciation. There could be a consequent increase in public expenditure in the short term because of the loss of receipts. One possibility would be to modify flexi-ownership to make it less attractive compared with the Right to Buy.

iv. The implications for housing associations would need to be thought through.

v. Mr Ridley will be concerned about how flexi-ownership would fit in with other initiatives on housing policy, particularly those in the Housing Bill now before Parliament.

4. On the financial side, the analysis which has been carried out is inevitably fairly rough and ready, given the short time available. The outcome is also very sensitive to what assumptions are made about take-up by different groups of tenants. Nevertheless the figures suggest that the scheme is remarkably robust in terms of eventual public expenditure savings: virtually every case considered by officials produces a positive net present value. The speed with which savings would accrue, however, is less certain and would depend, for instance, on the extent to which flexi-ownership diverted tenants from the Right-to-Buy scheme, and the extent to which the public sector eventually needed to build more houses for rent, to replace those which had been taken over under flexi-ownership. On favourable assumptions,

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public expenditure savings could begin to appear within the first years of the scheme; on unfavourable assumptions, there could be very large public expenditure costs - perhaps hundreds of millions of pounds - in the early years, with savings only appearing after seven years or more.

5. Depending on how the discussion goes you may wish to:

i. ask for the flexi-ownership scheme to be revised in the light of discussion, either for further consideration by the Group or for reference back to E(LF);

or ii. ask Mr Ridley for further details of the alternative approach which he hints at in his minute, which appears to be based on improvements to the Right-to-Buy scheme coupled with a special (means-tested?) extension of that scheme to people who cannot at present afford it but who are not on housing benefit.

6. One underlying question is when decisions need to be taken on flexi-ownership if it is to be included in the Housing Bill next session. You may wish to ask Mr Ridley about this. The deadline may be fairly soon. If so, the Group may find itself faced with a choice between an early decision on flexi-ownership with a view to including it in the next Housing Bill; or further exploration of the options with a view to legislating later in this Parliament, with a risk of losing momentum.

MAIN ISSUES

Tenants in flats

7. Although tenants in flats would have the same flexi-ownership rights as tenants of houses, the scheme might not be very attractive to them, because of the service charges they would have to pay, particularly if their local authority wished to scare them off exercising their rights. This problem also affects the

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Right-to-Buy scheme: only 5% of sales have been flats, even though they represent 36% of the council stock in England (and about 80% in London). There are options which might make flexi-ownership more attractive to tenants in flats, including:

- i. exempting them from service charges. But this would lead to calls for extra compensation to local authorities, and pressure to extend the concession to the Right-to-Buy scheme;
- ii. giving them a right to apply for Housing Corporation loans towards service charges. But it does not seem appropriate for tenants to borrow for a continuing liability of this sort.

Neither option seems particularly attractive.

Repairs

8. Mr Ridley will argue that tenants on housing benefit would not be able to afford to spend money repairing their houses; that they ought not to be expected to do so; and that the Government should not be looking for savings from this source. The Chief Secretary may fear mounting pressure for the Government to provide financial help to tackle an increasing problem of disrepair.

9. Against this, it can be argued that flexi-owners would have a new incentive to look after their houses and that they would not necessarily have to find ready cash for the purpose: they could turn to do-it-yourself, and assistance from friends and relations. The Welsh Secretary will argue that there are already over 1.5 million home owners paying for repairs to their houses whose incomes would be low enough to entitle them to rent rebates if they were council tenants: no one is pressing the Government to tackle disrepair in their houses. And if major repairs were needed, flexi-owners could also borrow from banks and building societies against the security of their new assets, and from the Housing Corporation under Mr Walker's equity repurchase proposal. Finally,

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the scheme is constructed so that the cost of disrepair would fall only on the flexi-owner and not on the Housing Corporation.

10. If you felt that disrepair was a real danger, one possibility might be to give the Housing Corporation a right to repair dwellings, charging the cost to the owner's equity share. But this would require monitoring and would be bureaucratic. You may feel that it would be better to trust to the incentive for flexi-owners to safeguard their new assets.

Diversion of Right-to-Buy sales

11. The Right-to-Buy scheme is currently generating capital receipts of £1.2 billion per annum and adding 70-80,000 dwellings annually to the owner-occupied sector in England. If there were substantial diversion of such sales into the flexi-ownership scheme there would be large immediate public expenditure costs. (Receipts would be deferred rather than lost altogether: the Housing Corporation would still benefit when flexi-owners purchased more equity or sold their houses.)

12. Whether there would be a substantial diversion of tenants in practice would depend on the choice which better-off tenants made between the extra capital gains they might make under the Right-to-Buy scheme, and the cash-in-hand advantage of avoiding mortgage payments under flexi-ownership. Annex C to the paper attempts to quantify these effects. Here again, the behaviour of tenants faced with this choice is a matter of judgement. But if you felt there was a risk of widespread diversion of Right-to-Buy sales, it would be possible to accentuate the difference between the two schemes:

- i. you could reduce the initial flexi-ownership stake to the Right-to-Buy discount minus 10 percentage points (rather than the 5 percentage points currently proposed);

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- ii. you could remove the annual 1 percentage point equity bonus proposed for flexi-owners.

You will want to decide whether further work should be done on these or other options.

Impact on housing associations

13. The paper assumes that flexi-ownership would not apply to tenants of housing associations, despite the fact that existing tenants of non-charitable associations have the Right to Buy.

Flexi-ownership would undermine the Government's stated policy of deregulating housing association rents and encouraging them to seek private sector finance. However withholding flexi-ownership may be controversial with housing association tenants, and discourage new tenants. You may therefore want to commission work on ways of allowing them to participate, such as the "portable" flexi-ownership scheme described in paragraph 20 to Annex B to the paper. Alternatively you may want to ask Mr Ridley to look again at the future role of housing associations, and in particular what part of the market they should be catering for.

Implications for other new initiatives

14. Flexi-ownership also seems likely to reduce the impact of other initiatives such as tenants' choice and large-scale (Rochford) disposals of council stock. New landlords are unlikely to want to take on dwellings whose tenants have flexi-ownership rights, and tenants are unlikely to want to transfer if they lose those rights. Similar problems will affect Housing Action Trusts (HATs), who may find it difficult to transfer ex-council stock to other landlords. These problems could be mitigated, though probably not removed, by a scheme to preserve flexi-ownership rights but to compensate new landlords where they were exercised. You will want to decide whether to commission further work on this option.

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ie the point you touched on at the 9 May dinner.
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FINANCIAL IMPLICATIONS

15. Paragraphs 11-16 of the paper and Annex D analyse the public expenditure implications of flexi-ownership in two ways: the long-term effects, expressed as the net present value (NPV) of costs and savings over the indefinite future; and the immediate cash-flow effects in years 1, 2, 3 and 7. The results vary greatly, depending on:

i. take up of flexi-ownership by tenants in different groups;

ii. whether it is assumed that replacement provision will be needed for tenants who would have moved into properties transferred to flexi-owners.

All figures in the paper relate to England only.

Take-up by different groups

16. The broad picture is that take-up by tenants on full rent rebates yields large public expenditure savings (£63m in year 7 for each 5% of tenants opting for flexi-ownership). On the other hand, take up by those paying full rents and able to afford Right to Buy has substantial immediate costs (£22m in year 7 for each 5% of this group opting for flexi-ownership). Flexi-ownership sales to all these groups show eventual public expenditure savings in NPV terms: this is because flexi-ownership only defers (rather than avoids) capital receipts which would otherwise flow from full Right-to-Buy sales. Paragraph 16 of the paper puts the figures together into two illustrative cases. **Case A** (high take up by those on full housing benefit and low take up by those who could afford Right to Buy) shows public expenditure benefits **after the first year**, while Case B (low take up by those on full housing benefit and high take up by those who could afford the Right to Buy) has very high PES costs until year 7.

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Replacement of dwellings transferred to flexi-ownership

17. DOE and Treasury officials have argued that a successful flexi-ownership scheme would give rise to pressure for new subsidised housing to accommodate two-thirds of those who would have moved into flexi-owned houses when they became vacant for re-letting. This pressure could be met either by the purchase or building of new public sector rented housing (assumed in the financial analysis to make the calculations manageable) or by extra housing benefit support for tenants in the private rented sector. The replacement assumption reduces the attractiveness of flexi-ownership: savings in year 7 from sales to tenants on full rebates are reduced from £63m to £20m, and the cost of sales to those who could afford RTB rise from £22m to £28m. Case A in paragraph 16 continues to show savings after the first year, but Case B has public expenditure costs of nearly £500m in year 7 when replacement is assumed. You will want to consider whether the replacement assumption is a realistic one. It takes no account of the fact that flexi-ownership adds to the pool of cheaper private sector housing, some of which may end up in a revitalised private rented sector and some in owner-occupation. It should also increase the capital bequeathed by parents to the next generation, and improve their access to home ownership.

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Overall financial effects

18. The basic message of the financial analysis is that flexi-ownership is remarkably robust in NPV terms: whatever assumptions are made within the range considered by officials it eventually shows a net saving. The single exception is the patently unrealistic assumption that all RTB sales will be diverted to flexi-ownership sales and that there will be no other such sales: but even this assumption yields only a small NPV cost. However the cash-flow effect is crucially dependant on the assumptions made. On favourable assumptions (eg Case A) the scheme shows public expenditure savings from year two. But on unfavourable assumptions (eg Case B with replacement) there are very large public expendi-

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ture costs (£500-900m per annum) up to and beyond year seven. You will want to decide which case you believe is more realistic and whether the immediate cash-flow effects are acceptable. It is important not to overlook the opportunity which flexi-ownership would provide for the two middle groups: that is, the people who are on the housing benefit "taper" and those who are just above housing benefit but not able to afford the Right to Buy.

VIEWS OF OTHER MINISTERS

19. The Secretary of State for Wales will argue strongly for flexi-ownership. He will probably get some support from the Secretary of State for Social Services. He may also get some support from the Secretary of State for Scotland although the latter may be worried about the effect on Right-to-Buy receipts. It is possible that Mr Waldegrave may sympathise with flexi-ownership.

20. The Secretary of State for the Environment will be opposed to flexi-ownership. He will probably argue for further exploration of other options on a fairly slow timetable, to give time for the present Housing Bill to get through Parliament. He will not want flexi-ownership in the next Housing Bill. The Chief Secretary will probably also say that the issues need further examination on a slower timetable.

R.T.J.

R T J WILSON
Cabinet Office
25 May 1988

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Prime Minister

FLEXI-OWNERSHIP

WITH PG

We are to discuss on Thursday the paper circulated on 20 May by the Cabinet Office. I thought it would be helpful to comment in writing before then.

The idea of flexi-ownership seems to me a most interesting one, and I certainly support the objective of attracting more people on to the home-ownership ladder. But I do not think that the scheme as proposed is quite right.

It seems to me that Annexes C and D bring out clearly what is wrong. They show that the scheme is only affordable if it attracts enough takers among tenants on 100% rent rebate; in other words, it only saves the Exchequer money if the very poorest of tenants, who now pay nothing towards their rent, in future have to put some of their small incomes towards the upkeep of their homes. The paper assumes £4 per week but obviously the amount will vary between authorities and properties. But whatever the figure, after the recent experience on housing benefit 'losers', it is surely unrealistic to expect to deliver savings for the Exchequer at the expense of the poorest local authority tenants.

That problem is exacerbated, as I see it, because at the other end of the spectrum flexi-ownership would offer tenants who could afford to pay the full right to buy price for their home the opportunity to get on to the home-ownership ladder at a much lower price, albeit not gaining the full equity, thus jeopardising our £1.2 billion pa in capital receipts. So the paradoxical effect of the scheme is that it would leave the poorest local authority tenants with less cash in hand, to the Exchequer's benefit, whilst allowing the better-off local authority tenants to begin home-ownership at a price lower than they could afford, at a public expenditure cost.



My preference would be for us to look for a way of improving the right to buy which would not induce tenants on housing benefit to take on the obligations of upkeep which they cannot afford, but which would give new encouragement to the remaining 1.5 million local authority tenants not on housing benefit to get on the home-ownership ladder. We should look at increasing the inducements to those we think can afford the full discounted price (category D), without significantly reducing the public expenditure receipts, whilst offering new opportunities to the 590,000 tenants not on rebate in category C, to make payments which count towards purchase of equity. I realise that that would not deliver the public expenditure savings assumed from saved housing benefit to tenants in categories A and B. But it seems to me to make more sense to encourage the better-off tenants to buy or start buying than to encourage the worse-off to take on obligations they cannot afford. I suggest we ask officials to pursue this alternative approach.

I have two other comments:

- i. If our adoption of flexi-ownership were made public during the passage of the current Housing Bill, it would cause us enormous difficulties both of presentation and of policy substance, for the reasons explained in the paper.
- ii. Whether or not we go for flexi-ownership or any other enhanced right to buy package, the need to ring-fence local authority housing accounts is still urgent; and my second paper for discussion on Thursday contains my proposals.

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

N R

May 1988

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PRIME MINISTER

25 May 1988

HOUSING POLICY MEETING: THURSDAY 26 MAY

At Thursday's meeting of the Housing Policy Group you will be considering the Cabinet Office paper on flexi-ownership, Mr Ridley's minute commenting on it and his paper on a new financial regime for local authority housing.

FLEXI-OWNERSHIP

1 THE BACKGROUND

Advantages to Tenants

The flexi-ownership scheme outlined in the Cabinet Office paper would offer two advantages to tenants:

- lower weekly outgoings for those tenants paying all or part of their rent from their own resources or who would otherwise exercise "right to buy";
- an equity stake in their house of 25%-55%.

In return for these benefits tenants would lose entitlement to housing benefit (though this would be no real disadvantage since outgoings under the scheme would be lower than rent net of housing benefit) and would be required to take on responsibility for maintaining their house (at an estimated weekly cost of £4, though this obligation would not be enforced). In addition, those tenants who would otherwise have exercised the right to buy would not have the full benefit of the growth in the value of their house.

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Take-Up

It is impossible to estimate the likely take up of the scheme; the Cabinet Office paper merely shows the financial results of some possibilities. Take-up is likely to be highest by those tenants paying all or part of their rent themselves but who are too poor to afford full right to buy since they gain lower outgoings and an equity stake.

Take up is likely to be lower amongst those tenants whose rent is paid in full or almost in full by housing benefit since they will make no saving in weekly outgoings but incur an additional responsibility for maintaining their house. If they remain tenants, they would continue to clock up additional discount and have their house maintained by the local authority. However some elderly tenants on full housing benefit with a maximum entitlement to discount and families prepared to help them maintain their house would probably be interested in flexi-ownership in order to secure a share in their house to pass onto their children.

It is most difficult to estimate the effects of this scheme on tenants who might otherwise exercise the right to buy. In practice those most influenced by the savings in outgoings, particularly those only just able to afford full right to buy, may opt instead for flexi-ownership whilst those who value the capital advantage are still likely to go for right to buy.

Wider Benefits

The scheme would transfer of wealth from the State to individuals. It would give people who, on present policies, have no significant assets some personal wealth whose value they will have an incentive to maintain and enhance. They will be able to pass this on to their children who will thereby be less dependent on the State. It would also

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reduce ~~and~~ the adverse effect of housing benefit on incentives to work. Tenants could opt for flexi-ownership when they get a job, avoiding increased housing costs as housing benefit is clawed back.

2 THE ISSUES

The Cabinet Office paper makes a thorough assessment of the advantages and disadvantages of the scheme, to the extent possible in the time available and without information about likely take up. The key issues that need to be addressed are:

- A. The impact of the scheme on conventional right to buy.
- B. The financial effects of the scheme.
- C. The effect of the scheme on the condition of the housing stock.
- D. The need for future public support for housing for low income families, beyond that provided for in current expenditure plans, to offset the loss of public sector rented housing under the scheme.

A number of subsidiary points (flats, housing associations, "Tenants Choice" and HAT's) require further work by officials if it is decided to go ahead.

A. Effect on Conventional Right to Buy

The most difficult aspect of the scheme is its likely impact on conventional right to buy - not because of the effect on public sector finances (which are considered below) but because conventional right to buy is a preferred option and it would be unfortunate if large numbers of sales were diverted to flexi-ownership.

It is impossible to make an authoritative estimate of the impact of the scheme on full right to buy in the absence of hard evidence, for example from market research or a pilot scheme, since it depends on individual preferences for capital appreciation compared to lower weekly outgoings. Certainly some who could afford right to buy will prefer flexi-ownership.

However, the Government's success has been founded partly on a belief in individuals' desire to build up assets for themselves and their families and there is no reason to suppose different behaviour on a large scale in this case. Provided the scheme is marketed as a second best option for those who cannot afford the right to buy and there is an adequate additional discount for those exercising right to buy, we see no reason to suppose that there will be an unacceptable diversion of purchases from right to buy. It is not clear that the 5% proposed together offset by the complicated system of bonus points for flexi-owners is adequate. Officials should be asked to look at this aspect again.

B. Financial Effects

One of the most unexpected conclusions of the work by officials is the financial assessment. On the basis of the ready-reckoner set out in paragraph 15 of the paper it appears that on almost any reasonable assumptions about take-up the scheme will have a positive net present value for the Public Sector. For example 10% take up by those on full rent rebates and 30% take up by those on partial rent rebates is just sufficient for a non-negative present value even if all right to buy purchases switch to flexi-ownership. If half switch, 5% and 15% are sufficient. The reason for this is that the scheme merely defers receipts from right to buy, it does not eliminate them. Eventually, a tenant opting for flexi-ownership will move away or die

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and at that point the house is sold and the receipt accrues to the public sector.

This effect is reinforced if provision is made for tenants to sell back part of their equity to the Housing Corporation to finance repairs because eventually that portion of the equity will have to be repaid whereas had the repair been carried out in the public sector the cost would have been a perpetual charge on the public funds. Savings also arise because the public sector does not have to pay for expenditure on improvements (as opposed to repairs).

The year by year effect of the scheme on public expenditure is less predictable and more likely to be negative in the early years before receipts from sales start to accrue. However, the effect on public expenditure is negative only in the sense that there is a loss of receipts (which under existing conventions score as negative public expenditure), not in the sense of an additional claim on the nation's resources by the public sector. On the contrary, the scheme leads to less activity in the public sector. And the loss of receipts could be offset by rescheduling sales of shares in privatised companies.

We therefore see no case against the scheme on public expenditure grounds. On the contrary, the impact over the longer term is likely to be favourable.

C. Effect on the Condition of the Stock

Without hard evidence, it is impossible to be certain that flexi-owners will look after their houses as well as local authorities would have done. But there are several grounds for optimism:

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- flexi-owners have a strong incentive to maintain and improve the value of their home and a strong disincentive to neglect maintenance because any increase in value accrues entirely to them whilst any loss is deducted in full from their equity share;
- those tenants least able to afford to maintain their homes (those on full housing benefit) have least incentive to take up the scheme except where their relatives are prepared to help with maintenance;
- flexi-owners will have access to means-tested home improvement grants on the same basis as other owner occupiers and will have a limited right to sell back part of their equity stake to the Housing Corporation to finance major repairs;
- the local authorities have a poor record of maintaining their houses. Is it really likely that flexi-owners, whose comfort and equity value suffer if they fail to maintain their houses properly, will do a less good job than this?

D. Need for Public Expenditure to Meet the Future Housing Needs of Low Income Families.

The Cabinet Office paper includes estimates which assume that two-thirds of the housing transferred to flexi-ownership will need to be replaced by some form of publicly funded provision (either bricks and mortar subsidies or housing benefit) when flexi-owners eventually move on. This is because the houses would have been available for relet at that stage to low income families had they remained in the public sector whereas with flexi-ownership they would be passed to another owner occupier.

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It is impossible to make any reasonable estimate of the impact of flexi-ownership on the future housing needs of low income families but the DOE estimate may well be pessimistic. If the scheme is successful it will profoundly change both the housing market and attitudes in ways that may substantially reduce the future need for public support for housing for low income families. For example:

- it will inject large numbers of houses at the bottom end of the market which may remain owner occupied or be rented privately at relatively low rents;
- it will give low income households a capital asset that they can pass on to their children for use as a deposit on an owner occupied house;
- through its impact on incentives to work it will reduce the numbers of long term unemployed people dependent upon publicly supported housing.

It is unsafe to place much reliance on any estimate of a future need to increase expenditure on enabling low income families to afford rented housing. However on the basis of the Cabinet Office financial analysis, even expenditure at the high level assumed by the DOE would not have unacceptable public expenditure consequences.

3 MR RIDLEY'S COMMENTS ON FLEXI-OWNERSHIP

Mr Ridley argues against the scheme, essentially on the grounds that it can only work financially at the expense of poor tenants on 100% housing benefit whilst providing an attractive alternative to better off tenants who would otherwise exercise right to buy, at a loss in receipts to the Exchequer.

This is a mistaken analysis. The scheme would be targetted primarily on the two other groups of tenants - those on partial housing benefit or paying full rents but too poor to exercise right to buy. It is more attractive to these than to the other groups and can be financially beneficial to the public sector in the longer term (ie in net present value terms) without assuming that significant numbers of tenants on 100% housing benefit take up the scheme.

A NEW FINANCIAL REGIME FOR LOCAL AUTHORITY HOUSING

Nicholas Ridley's paper on a new financial regime for local authority housing looks at the effects of making housing benefit for council tenants a charge on the Housing Revenue Account. This would soak up surpluses so that almost all local authorities would be in deficit. A new subsidy would be paid to cover this deficit but local authorities would not be allowed to make contributions from their general fund. Versions 1-3 of this proposal would, respectively:

- prevent local authorities transferring surpluses to their general fund;
- allow local authorities to transfer surpluses to their general fund;
- require local authorities deemed to be capable of making a surplus to transfer it to the general fund and allow transfers beyond this. There would not be a mechanism to claw these surpluses back, for example through reduced revenue support grant.

Assessment

The attached exemplification by the DOE shows the effects of this system authority by authority. It shows that initially eight local authorities would be capable of making a surplus, rising to 12 by 1994-95. I understand from the DOE that by 1999 - 2000 some 25 authorities would be in surplus. These exemplifications take no account of the impact of flexi-ownership, though an earlier estimate based on rather crude assumptions and since withdrawn by the DOE, suggested that its impact would be marginal - presumably because the saving in housing benefit and management and maintenance roughly cancel out the loss of rent income. They also assume no change in the rate of unemployment.

Nicholas Ridley opts for version 3 of his proposal on the grounds that it is the only one that prevents local authorities using surpluses to keep down their rents or incur extravagant or inefficient expenditure on management and maintenance. However only a small number of local authorities will be capable of making surpluses and these will be relatively modest. A power to require surpluses to be generated will be controversial and we see little real benefit given that authorities will be free to use them to finance extravagant or unnecessary expenditure on other services.

CONCLUSIONS

1. We recommend that you agree in principle to the development of a scheme of flexi-ownership.
2. We recommend that officials should examine the precise terms of the scheme to ensure that it is adequately differentiated from right to buy.

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3. We recommend that officials should be asked to undertake further work on the following subsidiary issues:

- extending the scheme to flats;
- extending the scheme to tenants of non-charitable housing associations;
- minimising the impact of the scheme on "tenants choice";
- examining whether any modification should be made to the scheme in Housing Action Trust areas.

4. We recommend that you agree to version 2 of Nicholas Ridley's proposed new financial regime for local authority housing.

Peter Stredder

PETER STREDDER

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TABLE OF SURPLUSES, HB EXPENDITURE, & NET SURPLUSES under RING-FENCING

£M in 1990/1 prices

LANAME	1990/1			1991/2			1992/3			1993/4			1994/5		
	SURP	HB	NET	SURP	HB	NET	SURP	HB	NET	SURP	HB	NET	SURP	HB	NET
ISLES OF SCILLY	-0.037	0.038	-0.076	-0.032	0.039	-0.070	-0.026	0.039	-0.066	-0.021	0.040	-0.061	-0.017	0.040	-0.057
BOLTON	-0.096	14.992	-15.088	0.680	15.142	-14.462	1.415	15.294	-13.879	2.110	15.447	-13.337	2.766	15.601	-12.835
BURY	1.839	6.555	-4.716	2.151	6.620	-4.470	2.445	6.687	-4.241	2.724	6.753	-4.030	2.986	6.821	-3.835
MANCHESTER	-26.957	51.531	-78.488	-23.212	52.046	-75.258	-19.653	52.566	-72.220	-16.273	53.092	-69.365	-13.065	53.623	-66.688
OLDHAM	0.236	15.035	-14.799	1.207	15.185	-13.979	2.127	15.337	-13.210	3.000	15.490	-12.491	3.827	15.645	-11.819
ROCHDALE	0.441	12.060	-11.618	1.160	12.180	-11.020	1.840	12.302	-10.462	2.484	12.425	-9.941	3.093	12.549	-9.457
SALFORD	-6.839	21.695	-28.534	-5.197	21.912	-27.109	-3.639	22.131	-25.770	-2.161	22.353	-24.514	-0.760	22.576	-23.336
STOCKPORT	2.212	9.994	-7.782	2.699	10.094	-7.395	3.159	10.195	-7.036	3.594	10.297	-6.703	4.004	10.400	-6.395
TAMESIDE	-0.503	13.777	-14.280	0.224	13.915	-13.691	0.912	14.054	-13.142	1.564	14.194	-12.631	2.180	14.336	-12.156
TRAFFORD	1.341	6.777	-5.437	1.716	6.845	-5.129	2.071	6.914	-4.843	2.406	6.983	-4.577	2.721	7.053	-4.332
WIGAN	-1.800	18.469	-20.270	-0.738	18.654	-19.392	0.268	18.841	-18.573	1.219	19.029	-17.810	2.119	19.219	-17.100
KNOWSLEY	5.343	20.263	-14.920	6.003	20.466	-14.463	6.624	20.671	-14.047	7.208	20.877	-13.670	7.756	21.086	-13.330
LIVERPOOL	-12.930	39.129	-52.059	-10.294	39.520	-49.815	-7.793	39.915	-47.708	-5.420	40.315	-45.734	-3.170	40.718	-43.888
ST HELENS	-0.008	14.282	-14.290	0.621	14.425	-13.804	1.216	14.569	-13.353	1.779	14.715	-12.936	2.311	14.862	-12.551
SEFTON	1.543	11.271	-9.729	2.081	11.384	-9.303	2.591	11.498	-8.907	3.072	11.613	-8.541	3.526	11.729	-8.203
WIRRAL	4.524	22.288	-17.764	5.245	22.511	-17.267	5.925	22.736	-16.812	6.565	22.964	-16.398	7.169	23.193	-16.025
BARNLEY	-1.227	14.304	-15.532	-0.303	14.447	-14.750	0.572	14.592	-14.019	1.400	14.738	-13.338	2.182	14.885	-12.703
DONCASTER	-1.311	14.739	-16.050	-0.229	14.886	-15.116	0.796	15.035	-14.239	1.767	15.186	-13.419	2.685	15.337	-12.653
BOTHEHAM	-1.349	14.010	-15.359	-0.263	14.150	-14.413	0.765	14.291	-13.527	1.738	14.434	-12.696	2.658	14.579	-11.921
SHEFFIELD	7.683	50.708	-43.025	10.432	51.215	-40.783	13.030	51.727	-38.697	15.483	52.244	-36.761	17.798	52.767	-34.969
GATESHEAD	-2.543	18.985	-21.528	-1.431	19.175	-20.606	-0.379	19.367	-19.746	0.616	19.560	-18.944	1.550	19.756	-18.198
NEWCASTLE-UPON-TYNE	-2.825	28.091	-30.916	-1.132	28.372	-29.504	0.473	28.656	-28.183	1.993	28.942	-26.949	3.434	29.232	-25.798
NORTH TYNSIDE	-2.791	13.280	-16.071	-1.835	13.412	-15.247	-0.928	13.547	-14.475	-0.070	13.682	-13.752	0.742	13.819	-13.077
SOUTH TYNSIDE	-0.661	16.242	-16.903	0.343	16.405	-16.062	1.294	16.569	-15.275	2.194	16.734	-14.540	3.046	16.902	-13.855
SUNDERLAND	-0.928	22.902	-23.831	0.445	23.131	-22.686	1.744	23.363	-21.618	2.972	23.596	-20.624	4.132	23.832	-19.701
BIRMINGHAM	-10.332	82.196	-92.527	-6.002	83.018	-89.019	-1.899	83.848	-85.747	1.987	84.686	-82.699	5.666	85.533	-79.867
COVENTRY	1.775	21.760	-19.985	2.638	21.977	-19.340	3.454	22.197	-18.743	4.227	22.419	-18.192	4.950	22.643	-17.685
DUDLEY	2.971	19.585	-16.614	3.945	19.781	-15.836	4.865	19.979	-15.114	5.732	20.178	-14.446	6.550	20.380	-13.830
SANDWICH	-0.289	26.023	-26.311	1.396	26.283	-24.887	2.890	26.546	-23.556	4.497	26.811	-22.314	5.921	27.079	-21.158
SOLIHULL	0.093	8.631	-8.538	0.606	8.717	-8.111	1.091	8.804	-7.713	1.549	8.892	-7.343	1.983	8.981	-6.999
WALSALL	-1.833	19.262	-21.095	-0.548	19.454	-20.003	0.669	19.649	-18.980	1.822	19.845	-18.023	2.914	20.044	-17.130
WOLVERHAMPTON	1.485	26.563	-25.078	2.737	26.829	-24.092	3.921	27.097	-23.176	5.040	27.368	-22.328	6.097	27.642	-21.545
BRADFORD	-0.700	26.756	-27.455	0.475	27.023	-26.548	1.587	27.293	-25.706	2.640	27.566	-24.926	3.636	27.842	-24.206
CALDERDALE	0.257	10.127	-9.870	0.720	10.228	-9.508	1.159	10.330	-9.171	1.573	10.433	-8.860	1.964	10.538	-8.573
KIRKLEES	-2.108	18.876	-20.984	-1.023	19.065	-20.088	0.005	19.256	-19.250	0.979	19.448	-18.470	1.899	19.643	-17.744
LEEDS	-12.596	39.416	-52.013	-9.576	39.810	-49.386	-6.712	40.208	-46.920	-3.998	40.611	-44.609	-1.428	41.017	-42.444
WAKEFIELD	-2.148	20.435	-22.582	-0.762	20.639	-21.401	0.551	20.845	-20.295	1.793	21.054	-19.261	2.968	21.264	-18.297
*CITY OF LONDON	3.012	1.156	1.856	3.029	1.167	1.862	3.045	1.179	1.866	3.059	1.191	1.868	3.071	1.203	1.868
CARDEN	-35.639	20.224	-55.863	-33.166	20.426	-53.592	-30.804	20.631	-51.434	-28.548	20.837	-49.385	-26.395	21.045	-47.441
GREENWICH	-8.633	16.496	-25.130	-7.109	16.661	-23.770	-5.661	16.828	-22.468	-4.284	16.996	-21.280	-2.977	17.166	-20.143
HACKNEY	-16.778	19.245	-36.024	-14.657	19.438	-34.094	-12.638	19.632	-32.270	-10.717	19.829	-30.546	-8.891	20.027	-28.918
HANMERSMITH & FULHAM	0.069	21.957	-21.888	0.871	22.177	-21.306	1.631	22.398	-20.767	2.351	22.622	-20.271	3.034	22.848	-19.815
ISLINGTON	-40.292	25.130	-65.422	-37.483	25.382	-62.865	-34.802	25.636	-60.437	-32.243	25.892	-58.134	-29.800	26.151	-55.951
KENSINGTON & CHELSEA	2.465	8.987	-6.522	2.931	9.077	-6.146	3.373	9.168	-5.795	3.647	9.170	-5.523	3.899	9.170	-5.271
LANDBETH	-25.472	22.626	-48.097	-22.860	22.852	-45.712	-20.372	23.080	-43.452	-18.002	23.311	-41.313	-15.745	23.544	-39.290
LEWISHAM	-15.866	21.067	-36.933	-14.061	21.278	-35.339	-12.335	21.491	-33.836	-10.715	21.705	-32.421	-9.167	21.923	-31.089
SOUTHWARK	-16.930	25.891	-42.821	-14.608	26.152	-40.240	-11.320	26.414	-37.741	-8.702	26.678	-35.380	-6.207	26.945	-33.151
TOWER HAMLETS	12.823	44.027	-31.205	13.878	44.468	-30.590	14.875	44.912	-30.037	15.818	45.362	-29.544	16.788	45.815	-29.107
WANDSWORTH	0.352	30.504	-30.151	1.767	30.809	-29.042	3.107	31.117	-28.010	4.377	31.428	-27.051	5.578	31.742	-26.164
WESTMINSTER	8.660	15.426	-6.766	9.522	15.581	-6.059	10.337	15.736	-5.400	11.108	15.894	-4.786	11.836	16.053	-4.217
BARKING & DAGENHAM	5.871	9.096	-3.225	6.553	9.187	-2.635	7.194	9.279	-2.085	7.797	9.372	-1.575	8.362	9.466	-1.103
BARNET	4.441	12.419	-7.978	5.022	12.543	-7.520	5.572	12.668	-7.097	6.090	12.795	-6.705	6.578	12.923	-6.344
BEXLEY	2.877	4.462	-1.585	3.162	4.507	-1.345	3.430	4.552	-1.122	3.683	4.597	-0.914	3.920	4.643	-0.723
BURY	-17.811	8.560	-26.471	-16.510	8.816	-25.156	-15.172	9.072	-23.904	-13.856	9.320	-22.716	-13.678	9.568	-21.686

CONTINUING RTB SALES

BROMLEY	4.329	11.569	-7.240	4.742	11.685	-6.943	5.131	11.801	-6.671	5.496	11.919	-6.423	5.639	12.039	-6.199
CROYDON	4.439	13.571	-9.132	5.022	13.707	-8.685	5.573	13.844	-8.272	6.092	13.983	-7.891	6.580	14.123	-7.542
EALING	-0.777	12.790	-13.567	0.089	12.918	-12.829	0.910	13.047	-12.137	1.690	13.178	-11.488	2.429	13.310	-10.881
ENFIELD	2.083	13.039	-10.956	2.803	13.169	-10.366	3.485	13.301	-9.816	4.130	13.434	-9.304	4.740	13.568	-8.828
HARINGEY	-20.643	15.597	-36.241	-19.050	15.753	-34.803	-17.528	15.911	-33.439	-16.077	16.070	-32.147	-14.692	16.231	-30.923
HARROW	0.398	5.499	-5.101	0.708	5.554	-4.846	1.001	5.609	-4.608	1.279	5.665	-4.387	1.541	5.722	-4.181
HAVERING	5.251	9.344	-4.093	5.664	9.438	-3.773	6.053	9.532	-3.479	6.418	9.627	-3.209	6.761	9.724	-2.963
HILLINGDON	0.159	9.441	-9.282	0.854	9.536	-8.682	1.513	9.631	-8.118	2.137	9.728	-7.591	2.727	9.825	-7.098
HOUSLOW	-5.093	7.881	-12.974	-4.114	7.960	-12.073	-3.182	8.039	-11.221	-2.296	8.120	-10.416	-1.454	8.201	-9.655
KINGSTON-UPON-THAMES	3.010	4.230	-1.220	3.167	4.272	-1.105	3.315	4.315	-1.000	3.453	4.358	-0.904	3.583	4.401	-0.818
MERTON	1.330	7.324	-5.994	1.765	7.397	-5.631	2.175	7.471	-5.297	2.562	7.546	-4.904	2.927	7.622	-4.695
NEWHAM	-12.157	18.237	-30.394	-10.638	18.419	-29.058	-9.193	18.604	-27.796	-7.817	18.790	-26.607	-6.509	18.977	-25.486
REDBRIDGE	6.303	9.152	-2.848	6.546	9.243	-2.697	6.773	9.335	-2.563	6.984	9.429	-2.444	7.181	9.523	-2.342
RICHMOND-UPON-THAMES	2.798	5.296	-2.497	3.065	5.349	-2.284	3.316	5.402	-2.086	3.553	5.456	-1.903	3.775	5.511	-1.735
SUTTON	7.101	7.475	-0.375	7.351	7.550	-0.199	7.586	7.626	-0.040	7.805	7.702	0.103	8.009	7.779	0.230
WALTHAM FOREST	-2.900	12.160	-15.059	-2.085	12.281	-14.366	-1.312	12.404	-13.716	-0.578	12.528	-13.108	0.118	12.653	-12.536
BATH	1.524	3.653	-2.129	1.720	3.690	-1.969	1.905	3.726	-1.821	2.079	3.764	-1.685	2.243	3.801	-1.559
BRISTOL	0.322	16.732	-16.410	1.607	16.900	-15.293	2.822	17.069	-14.247	3.972	17.240	-13.268	5.058	17.412	-12.354
KINGSWOOD	-0.232	2.397	-2.629	-0.060	2.421	-2.481	0.103	2.445	-2.342	0.258	2.470	-2.212	0.404	2.494	-2.091
NORTHAVON	0.742	2.691	-1.949	0.915	2.718	-1.803	1.078	2.745	-1.667	1.233	2.772	-1.540	1.378	2.800	-1.422
WANSLEYKE	0.912	1.986	-1.074	1.031	2.005	-0.974	1.143	2.026	-0.882	1.249	2.046	-0.796	1.349	2.066	-0.718
WOODSPRING	1.685	6.088	-4.404	1.920	6.149	-4.229	2.142	6.211	-4.069	2.351	6.273	-3.922	2.547	6.336	-3.788
NORTH BEDFORDSHIRE	0.147	4.282	-4.136	0.411	4.325	-3.914	0.662	4.368	-3.707	0.898	4.412	-3.514	1.122	4.456	-3.334
LUTON	0.420	7.168	-6.748	0.859	7.240	-6.381	1.274	7.312	-6.038	1.668	7.385	-5.717	2.041	7.459	-5.418
MID BEDFORDSHIRE	0.135	2.786	-2.652	0.364	2.814	-2.450	0.582	2.842	-2.261	0.787	2.871	-2.084	0.981	2.900	-1.919
SOUTH BEDFORDSHIRE	1.140	3.853	-2.713	1.378	3.892	-2.514	1.602	3.931	-2.329	1.814	3.970	-2.156	2.014	4.010	-1.996
BRACKNELL	6.034	3.508	2.526	6.195	3.543	2.652	6.345	3.578	2.767	6.484	3.614	2.870	6.612	3.650	2.962
NEWBURY	0.680	2.733	-2.053	0.903	2.760	-1.857	1.114	2.788	-1.674	1.313	2.816	-1.502	1.501	2.844	-1.343
READING	1.589	4.948	-3.359	1.914	4.998	-3.084	2.221	5.048	-2.826	2.512	5.098	-2.586	2.786	5.149	-2.363
SLough	2.067	4.682	-2.615	2.343	4.729	-2.386	2.603	4.776	-2.174	2.848	4.824	-1.976	3.079	4.872	-1.794
WINDSOR & MAIDENHEAD	2.366	3.480	-1.114	2.569	3.514	-0.945	2.761	3.550	-0.789	2.941	3.585	-0.644	3.111	3.621	-0.510
WOKINGHAM	0.241	1.869	-1.628	0.369	1.898	-1.519	0.490	1.907	-1.416	0.605	1.926	-1.321	0.713	1.945	-1.232
AYLESBURY VALE	0.054	4.122	-4.068	0.410	4.164	-3.753	0.747	4.205	-3.458	1.066	4.247	-3.182	1.367	4.290	-2.923
BEACONSFIELD	0.413	1.578	-1.165	0.527	1.594	-1.067	0.634	1.610	-0.976	0.735	1.626	-0.891	0.831	1.642	-0.811
CHILTERN	0.136	1.590	-1.454	0.296	1.606	-1.310	0.447	1.622	-1.175	0.590	1.639	-1.048	0.726	1.655	-0.929
MILTON KEYNES	1.503	6.990	-5.487	1.745	7.059	-5.314	1.975	7.130	-5.155	2.193	7.201	-5.009	2.398	7.273	-4.875
WYCOMBE	1.615	3.579	-1.964	1.888	3.615	-1.727	2.146	3.651	-1.505	2.390	3.687	-1.298	2.619	3.724	-1.105
CAMBRIDGE	-0.019	4.040	-4.058	0.322	4.080	-3.758	0.645	4.121	-3.476	0.951	4.162	-3.211	1.239	4.204	-2.964
EAST CAMBRIDGESHIRE	1.147	2.186	-1.039	1.249	2.208	-0.959	1.345	2.230	-0.885	1.436	2.253	-0.817	1.520	2.275	-0.755
FENLAND	0.187	2.729	-2.542	0.330	2.756	-2.426	0.465	2.784	-2.319	0.592	2.811	-2.219	0.713	2.840	-2.127
HUNTINGDON	0.125	3.596	-3.472	0.397	3.632	-3.236	0.654	3.669	-3.014	0.898	3.705	-2.807	1.129	3.742	-2.613
PETERBOROUGH	1.664	2.870	-1.205	1.949	2.898	-0.949	2.218	2.927	-0.709	2.472	2.957	-0.484	2.712	2.986	-0.274
SOUTH CAMBRIDGESHIRE	0.828	2.739	-1.910	1.038	2.766	-1.727	1.237	2.794	-1.557	1.424	2.821	-1.397	1.601	2.850	-1.249
CHESTER	0.579	4.299	-3.721	0.807	4.342	-3.535	1.023	4.386	-3.362	1.227	4.430	-3.202	1.419	4.474	-3.055
CONGLETON	0.297	1.939	-1.642	0.438	1.958	-1.520	0.572	1.978	-1.406	0.698	1.998	-1.300	0.816	2.018	-1.201
CREWE AND NANTWICH	0.390	3.694	-3.304	0.648	3.731	-3.083	0.892	3.768	-2.876	1.122	3.806	-2.683	1.340	3.844	-2.504
ELLESMERE & NESTON	-0.802	2.834	-3.636	-0.534	2.862	-3.396	-0.280	2.891	-3.171	-0.039	2.920	-2.959	0.189	2.949	-2.760
HALTON	0.201	5.143	-4.942	0.485	5.194	-4.709	0.754	5.246	-4.492	1.009	5.298	-4.290	1.249	5.351	-4.103
MACCLESFIELD	0.711	3.340	-2.629	0.928	3.374	-2.446	1.132	3.407	-2.275	1.325	3.441	-2.116	1.507	3.476	-1.969
VALE ROYAL	0.203	4.172	-3.969	0.470	4.214	-3.744	0.722	4.256	-3.534	0.960	4.299	-3.339	1.184	4.342	-3.157
WARRINGTON	-1.536	6.305	-7.841	-1.139	6.368	-7.507	-0.764	6.432	-7.195	-0.408	6.496	-6.904	-0.072	6.561	-6.632
HARTLEPOOL	-0.773	8.284	-9.057	-0.405	8.367	-8.772	-0.056	8.450	-8.507	0.274	8.535	-8.261	0.586	8.620	-8.034
LANDBAURGH	-0.873	10.731	-11.604	-0.295	10.838	-11.133	0.252	10.947	-10.694	0.771	11.056	-10.285	1.261	11.167	-9.906
MIDDLESBROUGH	-0.309	17.054	-17.362	0.369	17.224	-16.856	1.010	17.396	-16.386	1.617	17.570	-15.953	2.192	17.746	-15.554
STOCKTON ON TEES	-1.960	12.252	-14.212	-1.355	12.375	-13.730	-0.783	12.498	-13.282	-0.242	12.623	-12.866	0.269	12.750	-12.480
CARADON	0.136	2.268	-2.132	0.272	2.291	-2.018	0.401	2.314	-1.913	0.522	2.337	-1.814	0.637	2.360	-1.723
CARRICK	0.576	2.597	-2.021	0.711	2.623	-1.912	0.839	2.650	-1.811	0.959	2.676	-1.717	1.073	2.703	-1.630
REDFERT	0.220	2.599	-2.379	0.344	2.625	-2.201	0.461	2.651	-2.190	0.572	2.678	-2.106	0.677	2.705	-2.028
NORTH CORNWALL	0.317	2.719	-2.403	0.452	2.747	-2.294	0.580	2.774	-2.194	0.701	2.802	-2.100	0.816	2.830	-2.014
PERNITH	0.471	2.410	-1.939	0.590	2.434	-1.844	0.702	2.458	-1.756	0.808	2.483	-1.675	0.908	2.508	-1.600
BESTOPPEL	-0.020	2.109	-2.129	0.108	2.130	-2.022	0.230	2.151	-1.921	0.345	2.173	-1.828	0.453	2.194	-1.741
ALLEDDALE	-0.702	3.189	-3.891	-0.474	3.221	-3.695	-0.258	3.253	-3.511	-0.053	3.286	-3.339	0.141	3.319	-3.178
BARROW IN FURNESS	-0.137	2.750	-2.887	0.023	2.778	-2.755	0.174	2.805	-2.632	0.316	2.834	-2.517	0.452	2.862	-2.410
CARLISLE	-0.759	3.628	-4.387	-0.437	3.664	-4.101	-0.133	3.701	-3.833	0.156	3.738	-3.582	0.428	3.775	-3.347
COPPLAND	0.666	2.080	-1.414	0.830	2.101	-1.271	0.985	2.122	-1.177	1.131	2.143	-1.072	1.269	2.165	-0.896
EDEN	0.306	0.687	-0.681	0.276	0.896	-0.621	0.341	0.985	-0.564	0.403	0.914	0.611	0.463	0.912	0.459

CONTINUING RTB SALES

SOUTH LAKELAND	1.003	2.261	-1.258	1.146	2.284	-1.138	1.281	2.307	-1.026	1.407	2.330	-0.923	1.526	2.353	-0.827
AMBER VALLEY	0.148	3.325	-3.176	0.374	3.358	-2.984	0.587	3.391	-2.605	0.788	3.425	-2.637	0.978	3.460	-2.482
BOLSOVER	1.877	4.067	-2.190	2.089	4.108	-2.019	2.288	4.149	-1.861	2.475	4.190	-1.715	2.651	4.232	-1.581
CHESTERFIELD	-0.578	6.016	-6.594	-0.162	6.076	-6.238	0.233	6.137	-5.904	0.606	6.198	-5.592	0.959	6.260	-5.301
DERBY	-1.167	10.706	-11.874	-0.525	10.813	-11.338	0.084	10.922	-10.838	0.660	11.031	-10.371	1.204	11.141	-9.937
EREWASH	-0.505	3.895	-4.400	-0.241	3.934	-4.175	0.009	3.973	-3.965	0.245	4.013	-3.768	0.469	4.053	-3.584
HIGH PEAK	-0.083	3.068	-3.172	0.101	3.119	-3.019	0.275	3.150	-2.876	0.439	3.182	-2.743	0.595	3.214	-2.619
N.E. DERBYSHIRE	0.011	4.698	-4.688	0.352	4.745	-4.394	0.674	4.793	-4.118	0.979	4.841	-3.861	1.268	4.889	-3.621
SOUTH DERBYSHIRE	-0.167	2.025	-2.192	-0.019	2.046	-2.065	0.120	2.066	-1.946	0.253	2.087	-1.834	0.377	2.108	-1.730
WEST DERBYSHIRE	0.141	1.788	-1.647	0.276	1.806	-1.530	0.403	1.824	-1.420	0.524	1.842	-1.318	0.638	1.860	-1.222
EAST DEVON	-0.056	2.374	-2.430	0.100	2.398	-2.297	0.248	2.422	-2.174	0.388	2.446	-2.058	0.519	2.471	-1.951
EXETER	-0.113	3.163	-3.277	0.112	3.195	-3.083	0.325	3.227	-2.902	0.526	3.259	-2.733	0.717	3.292	-2.575
NORTH DEVON	0.451	2.315	-1.864	0.576	2.339	-1.762	0.694	2.362	-1.668	0.806	2.386	-1.580	0.911	2.409	-1.499
PLYMOUTH	0.040	10.806	-10.766	0.756	10.914	-10.157	1.434	11.023	-9.588	2.076	11.133	-9.057	2.683	11.244	-8.561
SOUTH HAMS	0.032	2.278	-2.246	0.164	2.301	-2.136	0.290	2.324	-2.034	0.408	2.347	-1.939	0.520	2.371	-1.851
TEIGNBRIDGE	0.830	3.137	-2.307	0.969	3.169	-2.199	1.101	3.200	-2.100	1.224	3.232	-2.008	1.340	3.265	-1.924
MID DEVON	0.022	2.331	-2.309	0.172	2.354	-2.183	0.313	2.378	-2.065	0.447	2.402	-1.955	0.573	2.426	-1.853
TORBAY	-0.029	3.482	-3.511	0.111	3.517	-3.406	0.244	3.552	-3.308	0.370	3.588	-3.218	0.488	3.624	-3.136
TORRIDGE	0.215	1.282	-1.067	0.291	1.295	-1.004	0.363	1.308	-0.945	0.431	1.321	-0.890	0.495	1.334	-0.839
WEST DEVON	0.368	1.092	-0.724	0.421	1.103	-0.682	0.470	1.114	-0.644	0.517	1.125	-0.609	0.560	1.137	-0.576
BOURNEMOUTH	0.710	5.298	-4.588	0.931	5.351	-4.420	1.140	5.404	-4.264	1.338	5.458	-4.121	1.524	5.513	-3.988
CHRISTCHURCH	0.379	1.025	-0.646	0.422	1.035	-0.613	0.463	1.046	-0.582	0.502	1.056	-0.555	0.538	1.067	-0.529
NORTH DORSET	0.397	1.531	-1.134	0.487	1.546	-1.059	0.571	1.562	-0.990	0.651	1.577	-0.926	0.726	1.593	-0.867
POOLE	1.576	4.019	-2.443	1.750	4.059	-2.309	1.914	4.100	-2.185	2.069	4.141	-2.071	2.215	4.182	-1.966
PURBECK	0.167	1.097	-0.930	0.237	1.108	-0.871	0.303	1.119	-0.816	0.365	1.130	-0.765	0.424	1.141	-0.717
WEST DORSET	1.124	2.762	-1.638	1.285	2.789	-1.505	1.437	2.817	-1.381	1.580	2.845	-1.266	1.715	2.874	-1.159
WEYMOUTH & PORTLAND	0.465	2.263	-1.798	0.586	2.285	-1.700	0.699	2.308	-1.609	0.807	2.331	-1.524	0.908	2.355	-1.446
WIMBORNE	0.154	1.402	-1.248	0.235	1.416	-1.181	0.311	1.430	-1.119	0.383	1.444	-1.061	0.451	1.459	-1.008
CHESTER LE STREET	0.022	4.268	-4.246	0.250	4.310	-4.060	0.466	4.353	-3.888	0.670	4.397	-3.727	0.862	4.441	-3.579
DARLINGTON	-1.724	3.950	-5.674	-1.438	3.990	-5.428	-1.167	4.030	-5.197	-0.910	4.070	-4.980	-0.666	4.111	-4.777
DERWENTSIDE	-1.302	6.956	-8.257	-0.888	7.025	-7.913	-0.497	7.095	-7.592	-0.125	7.166	-7.292	0.226	7.238	-7.012
DURHAM	-0.653	4.891	-5.545	-0.318	4.940	-5.258	0.000	4.990	-4.989	0.301	5.040	-4.739	0.585	5.090	-4.505
EASINGTON	3.195	10.691	-7.495	3.725	10.798	-7.073	4.225	10.906	-6.681	4.696	11.015	-6.318	5.140	11.125	-5.984
SEDFIELD	2.653	8.534	-5.882	3.050	8.620	-5.570	3.424	8.706	-5.282	3.777	8.793	-5.016	4.109	8.881	-4.772
TEESDALE	-0.132	0.561	-0.693	-0.090	0.567	-0.657	-0.051	0.573	-0.624	-0.014	0.578	-0.593	0.021	0.584	-0.563
WEAR VALLEY	-0.517	4.444	-4.961	-0.240	4.488	-4.728	0.023	4.533	-4.510	0.272	4.579	-4.307	0.507	4.624	-4.117
BRIGHTON	3.274	8.979	-5.705	3.599	9.069	-5.470	3.904	9.160	-5.256	4.191	9.251	-5.060	4.461	9.344	-4.883
EASTBOURNE	-0.399	3.801	-4.200	-0.187	3.839	-4.026	0.015	3.878	-3.863	0.206	3.916	-3.710	0.387	3.955	-3.568
HASTINGS	-0.657	2.584	-3.241	-0.473	2.610	-3.083	-0.299	2.636	-2.935	-0.133	2.663	-2.796	0.023	2.689	-2.666
HOVE	0.661	2.664	-2.003	0.778	2.691	-1.913	0.888	2.717	-1.830	0.991	2.745	-1.754	1.089	2.772	-1.684
LEWES	-0.199	1.860	-2.067	-0.043	1.887	-1.930	0.105	1.906	-1.801	0.245	1.925	-1.680	0.378	1.944	-1.567
ROTHER	0.731	2.037	-1.305	0.843	2.057	-1.214	0.949	2.078	-1.128	1.049	2.098	-1.049	1.144	2.119	-0.975
WEALDEN	1.573	2.944	-1.372	1.711	2.974	-1.263	1.841	3.004	-1.162	1.965	3.034	-1.069	2.081	3.064	-0.983
BASILDON	-1.949	8.119	-10.068	-1.635	8.200	-9.835	-1.336	8.282	-9.618	-1.052	8.365	-9.417	-0.782	8.449	-9.230
BRAINTREE	0.797	5.232	-4.435	1.137	5.284	-4.147	1.459	5.337	-3.878	1.763	5.390	-3.628	2.049	5.444	-3.395
BRENTWOOD	0.845	1.807	-0.963	0.952	1.825	-0.874	1.053	1.844	-0.791	1.149	1.862	-0.714	1.239	1.881	-0.642
CASTLE POINT	0.162	2.088	-1.926	0.232	2.109	-1.877	0.298	2.130	-1.832	0.360	2.151	-1.791	0.418	2.173	-1.754
CHELMSFORD	0.309	3.942	-3.632	0.607	3.981	-3.374	0.888	4.021	-3.133	1.154	4.061	-2.907	1.406	4.102	-2.696
COLCHESTER	0.535	4.825	-4.290	0.820	4.874	-4.054	1.088	4.922	-3.934	1.342	4.972	-3.630	1.582	5.021	-3.440
④ ✕ EPPING FOREST	5.508	4.357	1.231	5.772	4.401	1.372	5.945	4.445	1.500	6.106	4.489	1.617	6.256	4.534	1.722
HARLOW	-3.301	4.955	-8.256	-2.921	5.005	-7.925	-2.563	5.055	-7.618	-2.227	5.105	-7.332	-1.912	5.156	-7.068
MALDON	0.340	1.303	-0.964	0.407	1.316	-0.909	0.471	1.330	-0.859	0.531	1.343	-0.812	0.587	1.356	-0.769
ROCHFORD	-0.158	1.762	-1.920	-0.053	1.779	-1.832	0.048	1.797	-1.749	0.143	1.815	-1.672	0.233	1.833	-1.600
SOUTHEND ON SEA	3.263	6.732	-3.469	3.503	6.799	-3.297	3.729	6.867	-3.139	3.941	6.936	-2.995	4.142	7.005	-2.864
TENDRING	-0.179	2.670	-2.849	-0.024	2.697	-2.721	0.123	2.724	-2.601	0.262	2.751	-2.489	0.394	2.778	-2.384
THURROCK	1.273	9.311	-8.038	1.731	9.405	-7.674	2.163	9.499	-7.336	2.571	9.594	-7.022	2.957	9.690	-6.733
UTTLESFORD	1.065	1.677	-0.612	1.162	1.694	-0.532	1.252	1.711	-0.458	1.338	1.728	-0.390	1.417	1.745	-0.327
CHELTENHAM	0.962	3.094	-2.133	1.118	3.125	-2.008	1.264	3.156	-1.892	1.402	3.188	-1.786	1.531	3.220	-1.689
COTSWOLD	0.821	2.364	-1.543	0.968	2.387	-1.419	1.108	2.411	-1.303	1.239	2.435	-1.196	1.363	2.460	-1.096
FOREST OF DEAN	-0.229	2.146	-2.375	-0.061	2.167	-2.229	0.097	2.189	-2.092	0.248	2.211	-1.963	0.390	2.233	-1.844
GLoucester	0.158	3.363	-3.205	0.347	3.396	-3.049	0.525	3.430	-2.904	0.695	3.464	-2.769	0.855	3.499	-2.644
STROUD	0.432	3.311	-2.880	0.632	3.344	-2.712	0.822	3.378	-2.556	1.001	3.412	-2.411	1.170	3.446	-2.276
TAUNESBURY	0.353	2.149	-1.796	0.476	2.170	-1.695	0.591	2.192	-1.601	0.701	2.214	-1.513	0.804	2.236	-1.432
BASHINGSTOKE & DEANE	2.400	3.798	-1.398	2.760	3.836	-1.076	3.099	3.875	-0.775	3.420	3.913	-0.493	3.722	3.952	-0.230
⑤ ✕ EAST HAMPSHIRE	2.228	2.378	-0.150	2.398	2.402	-0.004	2.560	2.426	0.133	2.712	2.450	0.262	2.856	2.475	0.301
FARNTEICH	0.724	2.487	-1.761	0.886	2.512	-1.625	1.040	2.547	-1.467	1.185	2.582	-1.317	1.322	2.598	-1.268

CONTINUING RTB SALES

FAREHAM	1.162	2.058	-0.896	1.258	2.078	-0.821	1.348	2.099	-0.751	1.433	2.120	-0.687	1.514	2.141	-0.628
GOSPORT	0.581	2.599	-2.018	0.755	2.625	-1.869	0.920	2.651	-1.731	1.076	2.677	-1.601	1.223	2.704	-1.481
HART	0.083	0.922	-0.839	0.170	0.931	-0.761	0.252	0.940	-0.688	0.330	0.950	-0.619	0.404	0.959	-0.555
HAVANT	0.913	2.228	-1.315	1.048	2.250	-1.202	1.176	2.273	-1.097	1.297	2.295	-0.998	1.411	2.318	-0.907
NEW FOREST	1.567	4.740	-3.180	1.806	4.795	-2.989	2.033	4.843	-2.811	2.247	4.892	-2.645	2.449	4.941	-2.492
PORTSMOUTH	2.980	14.885	-11.904	3.669	15.033	-11.364	4.320	15.184	-10.864	4.934	15.336	-10.401	5.513	15.499	-9.976
RUSHMOOR	1.227	2.654	-1.426	1.421	2.680	-1.259	1.604	2.707	-1.103	1.777	2.734	-0.957	1.940	2.761	-0.822
SOUTHAMPTON	2.627	11.179	-8.552	3.306	11.291	-7.985	3.949	11.404	-7.455	4.556	11.518	-6.962	5.130	11.633	-6.503
TEST VALLEY	-1.418	3.039	-5.257	-1.085	3.877	-4.962	-0.768	3.916	-4.685	-0.460	3.955	-4.423	-0.183	3.995	-4.178
WINCHESTER	0.600	3.133	-2.533	0.806	3.165	-2.359	1.000	3.196	-2.197	1.183	3.228	-2.045	1.357	3.261	-1.904
BROMSGROVE	-0.430	1.465	-1.894	-0.290	1.479	-1.769	-0.158	1.494	-1.652	-0.032	1.509	-1.541	0.086	1.524	-1.438
HEREFORD	-0.362	1.676	-2.039	-0.191	1.693	-1.885	-0.029	1.710	-1.739	0.124	1.727	-1.603	0.270	1.745	-1.475
LEOMINSTER	0.082	1.111	-1.029	0.152	1.122	-0.970	0.218	1.133	-0.915	0.281	1.145	-0.864	0.340	1.156	-0.816
MALVERN HILLS	0.591	3.053	-2.462	0.758	3.083	-2.325	0.917	3.114	-2.198	1.066	3.145	-2.079	1.207	3.177	-1.970
REDDITCH	3.004	4.746	-1.741	3.242	4.793	-1.551	3.466	4.841	-1.375	3.676	4.890	-1.213	3.874	4.938	-1.065
SOUTH HEREFORDSHIRE	0.281	1.210	-0.929	0.348	1.222	-0.874	0.412	1.234	-0.822	0.472	1.246	-0.775	0.529	1.259	-0.730
WORCESTER	-0.030	3.310	-3.340	0.163	3.343	-3.181	0.345	3.377	-3.032	0.517	3.410	-2.894	0.679	3.445	-2.765
WYCHAVON	0.350	3.224	-2.875	0.605	3.257	-2.652	0.847	3.289	-2.443	1.075	3.322	-2.247	1.292	3.355	-2.064
WYRE FOREST	1.330	4.527	-3.196	1.568	4.572	-3.004	1.793	4.618	-2.825	2.005	4.664	-2.659	2.205	4.711	-2.506
BROXBORNE	0.976	2.684	-1.708	1.126	2.711	-1.585	1.267	2.738	-1.471	1.400	2.766	-1.365	1.526	2.793	-1.268
⑥ * DACORUM	3.749	4.301	-0.551	4.119	4.344	-0.225	4.467	4.387	0.080	4.794	4.431	0.363	5.101	4.475	0.626
EAST HERTFORDSHIRE	1.763	3.182	-1.419	1.975	3.214	-1.230	2.175	3.246	-1.070	2.364	3.278	-0.914	2.511	3.311	-0.770
HERTSHERE	-2.011	3.466	-1.455	2.177	3.501	-1.323	2.333	3.536	-1.202	2.480	3.571	-1.091	2.617	3.607	-0.989
NORTH HERTFORDSHIRE	0.835	4.468	-3.632	1.196	4.512	-3.317	1.536	4.558	-3.022	1.858	4.603	-2.745	2.162	4.649	-2.487
ST. ALBANS	-0.059	2.759	-2.818	0.186	2.786	-2.600	0.419	2.814	-2.396	0.638	2.842	-2.204	0.846	2.871	-2.025
⑦ * STEVENAGE	5.361	4.371	0.990	5.625	4.415	1.210	5.872	4.459	1.413	6.103	4.503	1.600	6.319	4.548	1.771
⑧ * THREE RIVERS	1.981	2.197	-0.216	2.125	2.219	-0.094	2.261	2.241	0.020	2.388	2.263	0.125	2.508	2.286	0.222
WATFORD	1.172	2.513	-1.342	1.362	2.539	-1.177	1.541	2.564	-1.023	1.711	2.590	-0.879	1.870	2.616	-0.745
⑨ * WELWYN HATFIELD	4.044	4.208	-0.164	4.362	4.250	0.112	4.661	4.292	0.369	4.942	4.335	0.607	5.206	4.379	0.827
BEVERLEY	-0.234	1.899	-2.133	-0.079	1.918	-1.997	0.067	1.937	-1.870	0.206	1.957	-1.751	0.337	1.976	-1.640
BOOTHFERRY	1.188	3.096	-1.908	1.281	3.127	-1.845	1.369	3.158	-1.789	1.451	3.190	-1.738	1.528	3.221	-1.693
CLETHORPES	0.453	2.276	-1.822	0.557	2.298	-1.741	0.655	2.321	-1.666	0.740	2.345	-1.597	0.835	2.368	-1.533
GLANFORD	-0.316	1.797	-2.113	-0.191	1.815	-2.007	-0.073	1.834	-1.907	0.038	1.852	-1.814	0.144	1.870	-1.726
GREAT GRIMSBY	0.231	5.301	-5.070	0.486	5.354	-4.868	0.727	5.407	-4.680	0.955	5.461	-4.506	1.171	5.516	-4.345
HOLDERNESS	-0.105	1.245	-1.350	-0.027	1.258	-1.285	0.046	1.270	-1.224	0.116	1.283	-1.167	0.181	1.296	-1.115
KINGSTON-UPON-HULL	-6.694	24.641	-31.336	-5.118	24.888	-30.006	-3.624	25.137	-28.761	-2.208	25.388	-27.596	-0.867	25.642	-26.509
NORTH HOLDS	0.328	2.708	-2.379	0.470	2.735	-2.265	0.604	2.762	-2.158	0.730	2.790	-2.059	0.849	2.818	-1.968
SCUNTHORPE	-0.637	5.656	-6.294	-0.315	5.713	-6.028	-0.010	5.770	-5.780	0.278	5.828	-5.550	0.551	5.886	-5.335
MEDINA	0.312	2.621	-2.309	0.420	2.647	-2.228	0.521	2.674	-2.153	0.617	2.701	-2.083	0.708	2.728	-2.020
SOUTH WIGHT	-0.289	1.510	-1.799	-0.202	1.525	-1.727	-0.119	1.540	-1.659	-0.041	1.555	-1.597	0.033	1.571	-1.538
ASHFORD	0.588	4.874	-4.285	0.887	4.923	-4.035	1.170	4.972	-3.802	1.437	5.021	-3.584	1.690	5.072	-3.381
CANTERBURY	1.037	4.084	-3.047	1.244	4.124	-2.880	1.440	4.166	-2.726	1.625	4.207	-2.583	1.799	4.249	-2.451
DARTFORD	1.899	2.604	-0.704	2.053	2.630	-0.577	2.197	2.656	-0.459	2.332	2.683	-0.351	2.459	2.709	-0.251
DOVER	2.809	3.903	-1.095	3.002	3.942	-0.940	3.185	3.982	-0.797	3.356	4.022	-0.666	3.517	4.062	-0.545
GILLINGHAM	0.500	2.980	-2.480	0.645	3.010	-2.365	0.781	3.040	-2.259	0.910	3.071	-2.161	1.032	3.101	-2.069
GRAVESHAM	1.108	3.385	-2.277	1.347	3.419	-2.072	1.572	3.453	-1.881	1.785	3.487	-1.702	1.986	3.522	-1.536
MAIDSTONE	0.067	3.570	-3.503	0.324	3.606	-3.282	0.567	3.642	-3.075	0.797	3.678	-2.882	1.013	3.715	-2.702
MEDWAY	3.291	5.798	-2.507	3.551	5.856	-2.305	3.796	5.914	-2.119	4.026	5.974	-1.948	4.241	6.033	-1.792
SEVENOAKS	1.819	3.262	-1.443	2.010	3.295	-1.285	2.190	3.328	-1.138	2.359	3.361	-1.003	2.517	3.395	-0.877
SHEPWAY	1.072	3.496	-2.424	1.210	3.531	-2.321	1.340	3.566	-2.226	1.463	3.602	-2.139	1.578	3.638	-2.059
SWALE	1.169	4.107	-2.938	1.410	4.148	-2.738	1.638	4.190	-2.552	1.852	4.232	-2.379	2.055	4.274	-2.219
THANEY	0.173	4.750	-4.577	0.426	4.797	-4.372	0.665	4.845	-4.180	0.891	4.894	-4.002	1.105	4.943	-3.837
TONBRIDGE & MALLING	1.095	2.667	-1.572	1.291	2.693	-1.402	1.477	2.720	-1.243	1.653	2.747	-1.095	1.818	2.775	-0.957
TUNBRIDGE WELLS	0.969	2.422	-1.452	1.139	2.446	-1.307	1.299	2.470	-1.172	1.449	2.495	-1.046	1.591	2.520	-0.929
BLACKBURN	-2.198	9.362	-11.561	-1.670	9.456	-11.126	-1.169	9.551	-10.720	-0.694	9.646	-10.340	-0.243	9.743	-9.986
BLACKPOOL	0.291	4.749	-4.458	0.520	4.796	-4.277	0.737	4.844	-4.108	0.941	4.893	-3.951	1.135	4.942	-3.807
BURNLEY	0.131	3.951	-3.819	0.354	3.990	-3.636	0.565	4.030	-3.465	0.764	4.070	-3.306	0.952	4.111	-3.159
CHORLEY	0.601	2.496	-1.896	0.717	2.521	-1.804	0.827	2.547	-1.719	0.931	2.572	-1.641	1.029	2.598	-1.569
FYLDE	-0.124	1.337	-1.462	-0.049	1.351	-1.400	0.022	1.364	-1.342	0.089	1.378	-1.280	0.153	1.392	-1.239
HYDBURN	0.648	3.012	-2.364	0.787	3.042	-2.254	0.919	3.072	-2.153	1.044	3.103	-2.059	1.162	3.134	-1.972
LANCASTER	-0.329	3.524	-3.853	-0.159	3.559	-3.718	0.003	3.595	-3.592	0.155	3.630	-3.475	0.300	3.667	-3.367
PENDIS	0.502	4.110	-3.608	0.649	4.151	-3.502	0.787	4.192	-3.405	0.918	4.234	-3.317	1.041	4.276	-3.236
PRESTON	0.987	6.785	-5.798	1.324	6.852	-5.529	1.642	6.921	-5.279	1.943	6.990	-5.047	2.227	7.060	-4.833
RIBBLE VALLEY	-0.062	0.937	-0.999	-0.004	0.946	-0.950	0.050	0.955	-0.905	0.102	0.965	-0.863	0.151	0.975	-0.824
ROSENDALE	-0.018	4.160	-4.178	0.159	4.202	-4.043	0.327	4.244	-3.917	0.486	4.296	-3.800	0.636	4.329	-3.694
SOUTH WIRRE	0.327	2.516	-2.189	0.450	2.541	-2.091	0.566	2.566	-2.000	0.676	2.592	-1.916	0.774	2.618	-1.810

CONTINUING RTB SALES

WEST LANCASHIRE	4.029	7.324	-3.295	4.259	7.397	-3.138	4.475	7.471	-2.996	4.678	7.545	-2.868	4.868	7.621	-2.753
WYRE	0.409	1.208	-0.799	0.517	1.220	-0.703	0.618	1.232	-0.614	0.714	1.245	-0.530	0.805	1.257	-0.452
BLADY	-0.109	0.961	-1.070	-0.010	0.971	-0.901	0.084	0.980	-0.897	0.172	0.990	-0.818	0.256	1.000	-0.744
CHARWOOD	-0.495	3.809	-4.304	-0.236	3.847	-4.083	0.010	3.885	-3.876	0.242	3.924	-3.682	0.462	3.963	-3.501
HARBOROUGH	0.107	1.569	-1.463	0.207	1.585	-1.377	0.303	1.601	-1.290	0.393	1.617	-1.224	0.478	1.633	-1.155
HINCKLEY & BOSWORTH	0.427	2.090	-1.663	0.562	2.111	-1.549	0.689	2.132	-1.443	0.809	2.154	-1.344	0.922	2.175	-1.253
LEICESTER	2.351	24.290	-21.939	3.445	24.533	-21.088	4.480	24.778	-20.298	5.459	25.026	-19.567	6.383	25.276	-18.893
MELTON	0.537	1.322	-0.785	0.616	1.335	-0.719	0.691	1.348	-0.657	0.762	1.362	-0.600	0.829	1.376	-0.547
NORTH WEST LEICESTER	0.441	2.547	-2.106	0.621	2.572	-1.952	0.790	2.598	-1.800	0.951	2.624	-1.673	1.102	2.650	-1.548
ODDY AND WIGSTON	-0.170	0.659	-0.829	-0.115	0.665	-0.780	-0.062	0.672	-0.733	-0.012	0.679	-0.690	0.036	0.685	-0.650
RUTLAND	-0.043	0.678	-0.721	0.014	0.685	-0.671	0.068	0.692	-0.624	0.119	0.699	-0.580	0.167	0.706	-0.539
BOSTON	-0.103	2.546	-2.649	0.060	2.571	-2.512	0.214	2.597	-2.383	0.359	2.623	-2.264	0.497	2.649	-2.153
EAST LINDSEY	-0.127	3.084	-3.211	0.043	3.115	-3.072	0.204	3.146	-2.942	0.357	3.178	-2.821	0.501	3.210	-2.709
LINCOLN	-0.747	5.699	-6.447	-0.432	5.756	-6.189	-0.134	5.814	-5.948	0.148	5.872	-5.724	0.415	5.931	-5.516
NORTH KESTEVEN	-0.144	2.552	-2.696	0.019	2.577	-2.558	0.173	2.603	-2.430	0.319	2.629	-2.310	0.457	2.655	-2.199
SOUTH HOLLAND	0.697	2.581	-1.884	0.833	2.607	-1.773	0.962	2.633	-1.671	1.083	2.659	-1.576	1.197	2.686	-1.408
SOUTH KESTEVEN	0.273	4.943	-4.670	0.541	4.992	-4.451	0.795	5.042	-4.247	1.035	5.093	-4.058	1.261	5.144	-3.882
WEST LINDSEY	0.006	2.752	-2.746	0.156	2.780	-2.624	0.297	2.807	-2.511	0.430	2.836	-2.405	0.557	2.864	-2.307
BRECKLAND	0.171	3.377	-3.206	0.408	3.411	-3.003	0.632	3.445	-2.813	0.845	3.480	-2.635	1.045	3.514	-2.469
BROADLAND	-0.214	2.106	-2.319	-0.089	2.127	-2.215	0.030	2.148	-2.118	0.141	2.169	-2.028	0.247	2.191	-1.944
GREAT YARMOUTH	0.325	3.673	-3.348	0.550	3.710	-3.160	0.762	3.747	-2.985	0.963	3.784	-2.821	1.153	3.822	-2.669
NORTH NORFOLK	-0.144	2.909	-3.053	0.053	2.938	-2.886	0.239	2.968	-2.729	0.415	2.997	-2.583	0.581	3.027	-2.446
NORWICH	0.032	12.398	-12.366	0.819	12.522	-11.704	1.564	12.648	-11.084	2.270	12.774	-10.504	2.938	12.902	-9.964
SOUTH NORFOLK	0.933	3.389	-2.456	1.091	3.423	-2.332	1.240	3.457	-2.217	1.380	3.491	-2.111	1.513	3.526	-2.014
WEST NORFOLK	0.135	3.990	-3.855	0.424	4.030	-3.606	0.698	4.070	-3.373	0.956	4.111	-3.155	1.201	4.152	-2.951
CORBRY	2.711	3.372	-0.662	2.908	3.406	-0.498	3.093	3.440	-0.347	3.267	3.474	-0.207	3.430	3.509	-0.079
DAVENTRY	0.126	1.920	-1.794	0.273	1.939	-1.666	0.413	1.959	-1.546	0.545	1.978	-1.434	0.669	1.998	-1.329
EAST NORTHAMPTON	-0.396	1.620	-2.017	-0.246	1.637	-1.883	-0.104	1.653	-1.757	0.030	1.670	-1.639	0.157	1.686	-1.529
KETTERING	0.370	3.496	-3.126	0.547	3.531	-2.984	0.714	3.567	-2.853	0.872	3.602	-2.731	1.020	3.638	-2.618
NORTHAMPTON	2.480	9.248	-6.768	2.975	9.340	-6.365	3.442	9.434	-5.992	3.882	9.528	-5.646	4.296	9.623	-5.327
SOUTH NORTHAMPTON	0.155	1.357	-1.202	0.270	1.370	-1.101	0.378	1.384	-1.006	0.481	1.398	-0.917	0.578	1.412	-0.834
WELLINGBOROUGH	0.218	3.524	-3.306	0.456	3.559	-3.103	0.682	3.595	-2.913	0.896	3.631	-2.735	1.098	3.667	-2.569
ALNWICK	-0.280	1.446	-1.725	-0.177	1.460	-1.638	-0.080	1.475	-1.555	0.011	1.490	-1.478	0.098	1.505	-1.406
BERWICK-UPON-TWEED	0.071	1.312	-1.241	0.181	1.326	-1.145	0.285	1.339	-1.054	0.383	1.352	-0.969	0.476	1.366	-0.890
BLYTH VALLEY	-0.933	4.511	-5.444	-0.621	4.556	-5.177	-0.326	4.601	-4.928	-0.048	4.647	-4.695	0.216	4.694	-4.478
CASTLE MORPETH	-0.596	2.185	-2.781	-0.443	2.207	-2.650	-0.297	2.229	-2.526	-0.159	2.251	-2.411	-0.028	2.274	-2.302
TYNEDALE	-0.043	1.650	-1.692	0.089	1.666	-1.577	0.214	1.683	-1.469	0.331	1.699	-1.368	0.442	1.716	-1.274
WANSBECK	-0.905	4.132	-5.037	-0.624	4.173	-4.797	-0.357	4.215	-4.572	-0.105	4.257	-4.362	0.133	4.300	-4.167
CRAVEN	0.123	0.825	-0.702	0.186	0.833	-0.647	0.246	0.842	-0.596	0.303	0.850	-0.547	0.356	0.859	-0.503
HAMBLETON	0.629	2.270	-1.641	0.764	2.293	-1.529	0.891	2.316	-1.425	1.011	2.339	-1.327	1.125	2.362	-1.237
HARROGATE	-0.161	2.911	-3.072	0.022	2.940	-2.918	0.195	2.969	-2.774	0.359	2.999	-2.640	0.514	3.029	-2.515
RICHMONDSHIRE	-0.062	1.150	-1.212	0.029	1.161	-1.133	0.114	1.173	-1.059	0.196	1.185	-0.989	0.272	1.197	-0.924
RYEDALE	-0.274	1.619	-1.892	-0.160	1.635	-1.795	-0.053	1.651	-1.704	0.048	1.668	-1.619	0.144	1.685	-1.540
SCARBOROUGH	1.040	3.574	-2.534	1.216	3.610	-2.394	1.382	3.646	-2.264	1.538	3.682	-2.144	1.685	3.719	-2.034
SELBY	-0.823	2.049	-2.872	-0.645	2.069	-2.714	-0.475	2.090	-2.565	-0.315	2.111	-2.426	-0.163	2.132	-2.295
YORK	-0.362	4.008	-4.370	-0.063	4.048	-4.112	0.219	4.089	-3.870	0.487	4.130	-3.643	0.739	4.171	-3.432
ASHFIELD	-1.348	4.409	-5.758	-0.967	4.454	-5.421	-0.606	4.498	-5.104	-0.264	4.543	-4.807	0.060	4.588	-4.528
BASSETLAW	-0.383	4.751	-5.134	-0.057	4.799	-4.855	0.253	4.847	-4.594	0.545	4.895	-4.350	0.822	4.944	-4.122
BROXTONE	0.196	3.531	-3.335	0.413	3.566	-3.153	0.619	3.602	-2.983	0.814	3.638	-2.824	0.997	3.674	-2.677
GEDLING	0.408	2.475	-2.067	0.573	2.500	-1.927	0.730	2.525	-1.795	0.877	2.550	-1.673	1.016	2.576	-1.559
MANSFIELD	1.259	5.586	-4.327	1.612	5.642	-4.030	1.947	5.699	-3.752	2.264	5.756	-3.492	2.563	5.813	-3.250
NEWARK	-0.596	3.484	-4.080	-0.330	3.519	-3.857	-0.094	3.554	-3.688	0.137	3.589	-3.453	0.355	3.625	-3.270
NOTTINGHAM	-4.668	27.089	-31.756	-2.966	27.359	-30.326	-1.353	27.633	-28.986	0.177	27.909	-27.733	1.626	28.188	-26.562
RUSHCLIFFE	0.442	2.045	-1.603	0.584	2.065	-1.482	0.718	2.086	-1.368	0.845	2.107	-1.262	0.965	2.128	-1.163
CHERWELL	1.249	2.576	-1.326	1.473	2.601	-1.128	1.685	2.627	-0.943	1.884	2.654	-0.770	2.072	2.680	-0.609
OXFORD	-1.421	3.675	-5.096	-0.974	3.712	-4.686	-0.549	3.749	-4.297	-0.144	3.786	-3.930	0.241	3.824	-3.583
SOUTH OXFORDSHIRE	1.426	3.145	-1.719	1.632	3.177	-1.544	1.827	3.208	-1.382	2.010	3.240	-1.231	2.182	3.273	-1.091
VALE OF WHITE HORSE	0.257	2.077	-1.820	0.444	2.098	-1.654	0.621	2.119	-1.498	0.788	2.140	-1.353	0.945	2.162	-1.216
WEST OXFORDSHIRE	0.177	2.053	-1.875	0.326	2.073	-1.748	0.466	2.094	-1.628	0.598	2.115	-1.517	0.723	2.136	-1.413
BRIDGNORTH	-0.085	1.194	-1.278	0.024	1.206	-1.182	0.126	1.218	-1.091	0.224	1.230	-1.007	0.315	1.242	-0.927
NORTH SHROPSHIRE	0.326	1.752	-1.426	0.427	1.769	-1.343	0.522	1.787	-1.265	0.612	1.805	-1.193	0.696	1.823	-1.126
OSNESTRY	-0.245	1.237	-1.482	-0.165	1.250	-1.414	-0.088	1.262	-1.351	-0.016	1.275	-1.291	0.052	1.288	-1.236
SHREWSBURY & ATCHAM	0.208	3.114	-2.906	0.410	3.145	-2.736	0.601	3.177	-2.576	0.781	3.209	-2.428	0.951	3.241	-2.290
SOUTH SHROPSHIRE	0.129	1.026	-0.897	0.181	1.037	-0.956	0.230	1.047	-0.817	0.276	1.057	-0.782	0.319	1.068	-0.749
THE WREKIN	1.724	7.257	-5.542	2.074	7.329	-5.256	2.404	7.403	-4.999	2.716	7.477	-4.761	3.010	7.551	-4.541
WENDBIP	-0.398	3.250	-3.648	-0.194	3.283	-3.467	0.010	3.316	-3.288	0.208	3.340	-3.140	0.391	3.382	-2.892

CONTINUING RTB SALES

SEDGEMOOR	0.519	3.241	-2.722	0.708	3.274	-2.565	0.887	3.306	-2.419	1.056	3.339	-2.283	1.215	3.373	-2.158
TAUNTON DEANE	-0.267	3.636	-3.903	0.009	3.673	-3.664	0.270	3.709	-3.439	0.517	3.746	-3.229	0.751	3.784	-3.033
WEST SOMERSET	0.047	1.413	-1.366	0.117	1.427	-1.310	0.184	1.441	-1.257	0.247	1.455	-1.209	0.306	1.470	-1.164
YEovil	-1.513	4.629	-6.142	-1.141	4.676	-5.817	-0.790	4.722	-5.512	-0.456	4.770	-5.226	-0.140	4.817	-4.958
CANNOCK CHASE	-0.928	4.700	-5.628	-0.634	4.747	-5.381	-0.356	4.794	-5.150	-0.092	4.842	-4.934	0.158	4.891	-4.732
EAST STAFFORDSHIRE	-1.119	3.280	-4.398	-0.889	3.312	-4.201	-0.671	3.346	-4.017	-0.464	3.379	-3.843	-0.269	3.413	-3.682
LICHFIELD	-0.621	2.663	-3.284	-0.414	2.698	-3.104	-0.218	2.716	-2.934	-0.032	2.744	-2.775	0.145	2.771	-2.626
NEWCASTLE UNDER LYME	0.586	4.720	-4.134	0.929	4.767	-3.838	1.254	4.814	-3.561	1.560	4.863	-3.302	1.850	4.911	-3.062
SOUTH STAFFORDSHIRE	-0.203	3.202	-3.404	0.014	3.234	-3.220	0.220	3.266	-3.047	0.414	3.299	-2.885	0.598	3.332	-2.734
STAFFORD	-0.029	3.279	-3.309	0.215	3.312	-3.097	0.446	3.345	-2.900	0.664	3.379	-2.715	0.871	3.413	-2.542
STAFFS. MOORLANDS	0.146	1.458	-1.312	0.246	1.473	-1.227	0.340	1.488	-1.147	0.429	1.502	-1.073	0.513	1.518	-1.005
STOKE-ON-TRENT	-2.442	13.837	-16.279	-1.564	13.976	-15.539	-0.732	14.115	-14.847	0.055	14.256	-14.201	0.800	14.399	-13.599
TAMWORTH	-1.850	5.369	-7.220	-1.509	5.423	-6.933	-1.186	5.477	-6.663	-0.878	5.532	-6.410	-0.587	5.587	-6.174
BABERGH	0.564	2.513	-1.949	0.726	2.539	-1.813	0.878	2.564	-1.685	1.023	2.590	-1.567	1.159	2.615	-1.456
FOREST HEATH	0.138	1.883	-1.745	0.282	1.902	-1.620	0.418	1.921	-1.502	0.548	1.940	-1.392	0.670	1.959	-1.290
IPSWICH	-0.149	5.089	-5.238	0.205	5.140	-4.935	0.540	5.191	-4.651	0.856	5.243	-4.387	1.156	5.295	-4.140
MID SUFFOLK	0.064	3.017	-2.953	0.227	3.047	-2.820	0.382	3.078	-2.696	0.529	3.108	-2.580	0.667	3.139	-2.472
ST. EDMUNDSBURY	0.843	2.509	-1.666	1.086	2.534	-1.449	1.315	2.560	-1.245	1.531	2.585	-1.054	1.735	2.611	-0.876
SUFFOLK COASTAL	0.310	2.203	-1.894	0.478	2.225	-1.747	0.637	2.248	-1.610	0.788	2.270	-1.483	0.930	2.293	-1.363
WAVENEY	0.444	3.966	-3.523	0.641	4.006	-3.366	0.827	4.046	-3.219	1.003	4.087	-3.084	1.169	4.127	-2.958
ELMHURIDGE	1.104	2.664	-1.559	1.305	2.690	-1.385	1.495	2.717	-1.222	1.675	2.744	-1.069	1.845	2.772	-0.926
EPSOM AND EWELL	0.704	1.069	-0.365	0.776	1.080	-0.304	0.843	1.091	-0.247	0.907	1.101	-0.194	0.968	1.112	-0.145
GUILDFORD	2.430	3.246	-0.816	2.624	3.279	-0.655	2.807	3.312	-0.504	2.979	3.345	-0.365	3.141	3.378	-0.237
MOLE VALLEY	0.751	1.571	-0.820	0.883	1.587	-0.704	1.007	1.603	-0.595	1.125	1.619	-0.494	1.236	1.635	-0.399
RELGATE AND BANSTEAD	2.710	2.486	0.224	2.854	2.511	0.344	2.990	2.536	0.454	3.116	2.561	0.555	3.235	2.587	0.648
RUNNYMEDE	1.284	1.698	-0.414	1.389	1.715	-0.326	1.488	1.732	-0.244	1.581	1.749	-0.168	1.668	1.766	-0.098
SPELTHORNE	2.462	2.284	0.178	2.558	2.307	0.251	2.648	2.330	0.318	2.732	2.353	0.379	2.811	2.377	0.434
SURREY HEATH	1.322	1.602	-0.280	1.385	1.618	-0.233	1.444	1.635	-0.191	1.498	1.651	-0.152	1.549	1.667	-0.118
TANDRIDGE	1.799	1.513	0.286	1.883	1.528	0.355	1.961	1.543	0.418	2.035	1.558	0.476	2.103	1.574	0.529
WAVERLEY	1.214	2.832	-1.617	1.403	2.860	-1.458	1.580	2.889	-1.309	1.748	2.918	-1.170	1.905	2.947	-1.041
WOKING	1.109	2.129	-1.020	1.250	2.150	-0.900	1.384	2.171	-0.788	1.509	2.193	-0.684	1.628	2.215	-0.587
NORTH WARWICKSHIRE	-0.076	1.908	-1.984	0.073	1.927	-1.854	0.214	1.946	-1.732	0.348	1.966	-1.618	0.474	1.985	-1.511
NUNEATON	1.533	6.045	-4.512	1.791	6.105	-4.314	2.035	6.166	-4.132	2.264	6.228	-3.964	2.481	6.290	-3.809
RUGBY	0.215	3.578	-3.363	0.401	3.613	-3.212	0.578	3.650	-3.072	0.745	3.686	-2.942	0.903	3.723	-2.820
STRATFORD-ON-AVON	0.396	3.022	-2.626	0.622	3.052	-2.430	0.836	3.083	-2.247	1.038	3.114	-2.076	1.229	3.145	-1.916
WARWICK	0.868	3.882	-3.014	1.112	3.921	-2.809	1.342	3.960	-2.618	1.560	3.999	-2.439	1.766	4.039	-2.273
ADUR	0.643	1.809	-1.166	0.765	1.827	-1.062	0.881	1.846	-0.965	0.990	1.864	-0.874	1.093	1.883	-0.790
ARUN	1.468	3.621	-2.153	1.630	3.657	-2.027	1.783	3.694	-1.910	1.928	3.731	-1.803	2.064	3.768	-1.704
CHICHESTER	-0.436	2.994	-3.429	-0.174	3.023	-3.198	0.073	3.054	-2.980	0.308	3.084	-2.776	0.530	3.115	-2.585
CRAWLEY	1.191	3.700	-2.509	1.588	3.737	-2.149	1.965	3.774	-1.809	2.321	3.812	-1.491	2.657	3.850	-1.193
HORSHAM	0.386	2.480	-2.093	0.586	2.505	-1.918	0.775	2.530	-1.754	0.954	2.555	-1.601	1.123	2.580	-1.457
MID SUSSEX	-0.004	2.037	-2.041	0.163	2.057	-1.894	0.321	2.078	-1.757	0.471	2.099	-1.628	0.612	2.120	-1.507
WORTHING	0.174	1.804	-1.630	0.269	1.822	-1.553	0.359	1.840	-1.481	0.444	1.859	-1.415	0.524	1.877	-1.353
KENNET	0.348	2.468	-2.120	0.513	2.493	-1.980	0.669	2.518	-1.849	0.816	2.543	-1.726	0.955	2.568	-1.613
NORTH WILTSHIRE	1.149	3.482	-2.332	1.345	3.516	-2.171	1.531	3.552	-2.021	1.705	3.587	-1.882	1.869	3.623	-1.754
SALISBURY	0.443	2.803	-2.360	0.678	2.831	-2.153	0.900	2.859	-1.960	1.109	2.888	-1.779	1.307	2.917	-1.610
THAMESDOWN	1.020	7.002	-5.982	1.487	7.072	-5.584	1.930	7.142	-5.213	2.348	7.214	-4.866	2.743	7.286	-4.543
WEST WILTSHIRE	1.944	3.116	-1.172	2.098	3.147	-1.049	2.243	3.179	-0.936	2.378	3.210	-0.832	2.505	3.242	-0.737

CONTINUING RTB SALES

PRIME MINISTER

MEETING OF GROUP ON HOUSING: 26 MAY

Papers

You saw over the weekend the paper prepared by officials under Cabinet Office chairmanship on the implications of Peter Walker's flexi-ownership proposal. This is at flag A.

Other papers now available for the meeting are:

Flag B: A note by Nicholas Ridley on flexi-ownership in which he records the doubts and concerns he put to you yesterday.

Flag C: A rejoinder from Peter Walker.

Flag D: A Cabinet Office brief on flexi-ownership.

Flag E: A note by Peter Stredder covering both flexi-ownership (the first item for discussion) and a new financial regime for local authority housing (the second item).

Flag G: Nicholas Ridley's paper on a new financial regime for local authority housing.

Flag H: The Cabinet Office brief on that item.

Handling

We have scheduled about 1¹/₄ hours for the meeting.

I suggest you take first the papers on flexi-ownership, and second those on the new financial regime for local authority housing.

As I said in my note before the weekend, I continue to see

considerable attractions in the flexi-ownership approach, although there is a good deal in Nicholas Ridley's point that there should be no public announcement on this while the current Housing Bill is going through. There are two particular points in Peter Stredder's note that have not come out in earlier discussion:

- (i) the role that flexi-ownership could play in removing the work disincentive created by the high marginal rate of withdrawal of housing benefit - a point Nicholas Ridley himself was at pains to stress a few weeks ago;

- (ii) even for those variants where flexi-ownership seems to have adverse public expenditure effects, ~~which this~~ reflects loss of receipts rather than an increased call on resources. It is an over simplification to say that receipts from the sale of council houses are totally akin to privatisation proceeds and should therefore be discounted in the public expenditure statistics; but I do think they are closer to privatisation proceeds than "real" negative public expenditure.

PRCG.

PAUL GRAY
25 May 1988

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nbpm get. cc 8/5

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2 MARSHAM STREET
LONDON SW1P 3EB
01-212 3434

P A Bearpark Esq
Private Secretary to
The Prime Minister
10 Downing Street
LONDON
SW1A 2AA

My ref:

Your ref:

24 May 1988

Dear Andy,

HOUSING IN RURAL AREAS, VILLAGE HOUSING AND NEW VILLAGES

In your letter of ¹⁹ May about the rural housing initiative, outlined in my Secretary of State's minute of 29 April, you said the Prime Minister had asked if there was any evidence about the inadequacies of present policies or was it just that prices were illustrating the shortage of housing etc.

Mr Ridley has asked me to explain that it is not so much a question of present policies not working as that the changing rural economy and the trends in housing demand mean that we need to develop new policies to meet a new situation in rural areas.

The present proposals have two main components: firstly measures to deal with the local need for affordable housing in many rural areas, and secondly changes in planning policies for development in rural areas, including the possibility of new villages.

The fact that house prices are rising rapidly in rural areas, not only in the South East, is certainly apparent. For example, a recent survey published by the Halifax Building Society showed that house prices in East Anglia increased by 40% a year compared to 23% a year in London. Organisations such as Rural Voice, which are concerned with rural communities rather than conservation, have been urging on DOE Ministers the need to encourage the provision of rented housing, by Housing Associations and others, since in many places house purchase is beyond the reach of local people on average incomes. Bodies such as the National Agricultural Central Rural Trust are finding new ways of meeting this need and our proposals are designed to encourage these self-help initiatives.

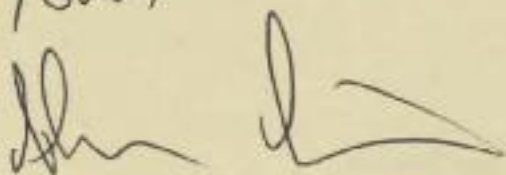
The second aspect, however, goes much wider than this and concerns the changing nature of housing demand in rural areas. This results partly from the changes in agriculture and in the rural economy that were the subject of the ALURE package last year, and partly from the demographic changes that are affecting housing demand in most parts of the country. The planning system has to make provision for these requirements, and on the whole it has done so: more houses were completed in England last year than in any year since 1979 and the proportion of private sector completions has been increasing rapidly. But many county structure plans still contain policies for rural development that are patently

out-of-date: they assume a traditional rural economy based on agriculture and an unchanged pattern of rural settlement. They do not take account either of the increasing diversification of the rural economy or of the widely dispersed character of housing demand that is affecting many rural areas and which, despite the fierce opposition generated in parts of the Home Counties, could benefit many of the less favoured rural areas. It is against this background that the paper on Housing in Rural Areas and New Villages seeks to encourage a more informed approach to this subject.

In short, It is not so much a matter of existing policies not working as of the need to develop a better understanding of a changing situation in rural areas (beyond the overheated South East) and the need for new policies to deal with it. Mr Ridley has been glad to see that the response from colleagues, including Mr MacGregor, Lord Young and Mr Fowler, indicates support for his proposals and he looks forward to discussing them at the meeting you have arranged for 9 June.

I am copying this letter to the Private Secretaries to the Lord President, the Lord Privy Seal, the Paymaster General, The Chancellor of the Duchy of Lancaster, the Secretary of State for Employment, the Chief Secretary to the Treasury, the Minister of Agriculture, Fisheries and Food, the Secretary of State for Social Services, the Secretary of State for Wales and to Sir Robin Butler.

Yours



A D RING
Private Secretary

HOUSING: Policy P112



CONFIDENTIAL



3 MARSHAM STREET
LONDON SW1P 3EB
01-212 3434

My ref:

Your ref:

Paul Gray Esq
Private Secretary to
The Prime Minister
10 Downing Street
LONDON
SW1A 2AA

23 May 1988

Dear Paul

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

afternoon

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

Roger

R BRIGHT
Private Secretary



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A NEW FINANCIAL REGIME FOR LOCAL AUTHORITY HOUSING

Note by the Secretary of State for the Environment

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

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

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

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

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

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

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

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

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

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

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

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

VERSION 1

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

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

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

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

VERSION 2

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

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

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

VERSION 3

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

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

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

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

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ANNEX 4

EXEMPLIFICATIONS

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

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

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

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

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

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

THE NATIONAL HOUSING REVENUE ACCOUNT

EFFECTS OF HOUSING BENEFIT (RENT REBATE) OFFSET

assumed real rent rise = 1% p.a. figures in £m

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



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10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

23 May 1988

HOUSING BILL: SPOUSES OF
ASSURED TENANTS

The Prime Minister has seen your Secretary of State's letter to the Secretary of State for Scotland of 18 May. She is content for the position of spouses of assured tenants to be resolved on the basis now suggested.

I am copying this letter to David Crawley (Scottish Office) and Jon Shortridge (Welsh Office).

PAUL GRAY

Roger Bright, Esq.
Department of the Environment

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SRWBLF

cc Blysp

PA.

PRIME MINISTER

MEETING OF MINISTERS ON HOUSING: 26 MAY

The purpose of this meeting is to follow up your recent working dinner with the small Ministerial group on housing to consider further Mr. Walker's flexi ownership idea. I attach a paper put together by Richard Wilson's shadow official group. It is not an easy read. There has been considerable dissension in the group, with the Treasury and DoE keen to deploy all the arguments against flexi ownership they could think of. Richard has had considerable difficulty in coming up with an agreed report; and the inevitable result is a typical committee document that airs everybody's arguments and prejudices.

So I suggest you do not try to plough through all the details, particularly the annexes. But you may like to take a first look at the main part of the paper over the weekend.

Paragraphs 5-10 helpfully summarises some of the key non-financial factors to be considered.

Paragraph 11 onwards gets into the detail of the financial implications. The key point is that it all depends critically on a number of assumptions - particularly concerning the type of tenant who would take up flexi ownership, and whether there would be repercussions for the level of local authority new house building. The Treasury and DoE have put forward assumptions on these points which, to my mind, unfairly work against the flexi ownership scheme - *though, had as they have tried, it is difficult to come up with figures showing that the scheme would cost money.* I will let you have next week before the meeting two further pieces of paper:

- the Cabinet Office brief pulling out the key points
- a commentary by Peter Stredder (who has been involved in the work of the official group).

PRG.
(PAUL GRAY)

20 May 1988



A cc BT

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From: R T J Wilson
20 May 1988

P 03123

MR GRAY

IMPLICATIONS OF A SCHEME OF FLEXI-OWNERSHIP

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

R T J WILSON

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HOUSING POLICY

IMPLICATIONS OF A SCHEME OF FLEXI-OWNERSHIP

Note by the Cabinet Office

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

Outline of the Scheme

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

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

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

Non-financial Implications of the Scheme

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

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

FINANCIAL IMPLICATIONS

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

Two Key Assumptions

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

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

Sensitivity to Assumptions

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

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

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

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

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

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

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

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

Effect of Take-up by Different Groups

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

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

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

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

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

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

The corresponding net present values would be:

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

Two Illustrative Cases

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

CASE A

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

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

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

CASE B

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

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

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

CONCLUSION

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

Cabinet Office
20 May 1988

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RIGHT TO BUY FLEXI-OWNERSHIP

1. Objectives

The objectives of the Flexi-ownership scheme are:

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

2. Eligibility

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

3. Financial position of new flexi-owner

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

4. Benefit Entitlement

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

5. The Housing Corporation's equity share

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

6. Additional equity purchase by flexi-owner

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

7. Automatic build-up of equity entitlement

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

8. Administration

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

When the sum accumulated had increased to the current purchase price of 0.5% share of the equity, the flexi-owner's equity stake would automatically be increased: the purchase price being deducted from the balance in the account and remitted to the Housing Corporation. More work is needed to assess whether Exchequer support will be required for the administrative costs of the scheme, whether to the Housing Corporation or to building societies or banks.

9. Repairs

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

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

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

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

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

10. Job Mobility

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

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

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

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

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

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

11. Flexi-ownership for tenants in flats

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

12. Target groups for flexi-ownership

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

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

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

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

CONFIDENTIAL

ANNEX B

HOUSING POLICY: IMPLICATIONS OF FLEXI-OWNERSHIP

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

IMPACT ON COUNCIL TENANTS

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

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

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

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

Tenants in Flats

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

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

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

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

- i. exempting flexi-owners from service charges. This would involve an increased subsidy to local authorities to compensate them for lost revenue. There might also be pressure to extend the concession to tenants exercising their Right to Buy;
- ii. giving flexi-owners a right to apply to the Housing Corporation for a loan to pay for service charges, which would be secured against their equity in the flat.

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

Tenants on Housing Benefit

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

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

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

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

11. Against this it can be argued that:

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

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

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

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

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

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

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

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

Tenants not on Housing Benefit

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

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

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

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

IMPLICATIONS FOR HOUSING POLICY

Impact on Housing Associations

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

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

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

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

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

Impact on Tenants' Choice

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

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

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

Impact on Rochfords: Disposal of Total Local Authority Stocks

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

Impact on HATs

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

Impact on Other Groups

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

- i. the Government had on previous occasions improved the terms on which the Right-to-Buy and other schemes had been available. It cannot undertake not to introduce new schemes on the grounds that previous generations would have liked to benefit from them;
- ii. the Right-to-Buy scheme and private sector mortgages would still offer a better deal as a long-term investment than flexi-ownership.

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

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

B. Capital appreciation

Value of the house, less debt, when household dissolves

(i) If buys with RTB	n.a.	n.a.	n.a.	68,300
(ii) Flexi-owned, no equity bought	n.a.	37,600	37,600	37,600
(iii) Flexi-owned, buys equity	n.a.	40,300	52,600	57,400

Ready Reckoner

	A.	B.	C.	D.
	Tenants with 100% Rent Rebate	Tenants with Partial Rebate	Tenants with No HB But Insufficient Income for RTB	Tenants with Sufficient Income for RTB
(1) Eligible population (England 1987)	960,000	650,000	390,000	600,000
(2) 5 per cent of (1)	48,000	32,500	19,500	30,000
(3) Tenants who would have exercised RTB	nil	nil	nil	16,750
<u>I Cash flow in year 7, out-turn prices, £ million</u>				
(4) Rent foregone	+ 65.40	+ 44.30	+ 26.55	+ 18.05 (*)
(5) Saving on management and maintenance	- 29.60	- 20.05	- 12.05	- 8.20 (*)
(6) Housing Benefit saving	- 65.40	- 29.55	nil	nil
(7) Repayment of equity to Corporation when House Sold	- 30.50	- 18.25	- 10.40	- 11.75
(8) Tax relief on loans financing sales	+ 2.05	- 0.95	+ 0.55	+ 0.65
(9) Insurance	+ 3.80	+ 2.55	+ 1.55	+ 2.35
(10) RTB receipts deferred	nil	nil	nil	+ 60.75
(11) Tax relief deferred	nil	nil	nil	- 8.00
(12) Cash purchase of equity	nil	- 2.50	- 10.40	- 29.30
(13) Repair & Modernisation (net)	- 8.80	- 6.35	- 3.80	- 2.60
(14) Sum of (4) to (13)	- 63.05	- 28.90	- 8.00	+ 21.95
(15) Partial replacement of re-lets	+ 43.30	+ 25.00	+ 11.30	+ 6.10
(16) Sum of (14) and (15)	- 19.75	- 3.90	- 3.30	+ 28.05
<u>II NPV (base year prices (£m))</u>				
(17) NPV corresponding to (14)	- 1,009	- 581	- 247	- 70
(18) NPV corresponding to (16)	- 279	+ 129	- 26	+ 67

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

MINUS means a SAVING: PLUS means a COST

PRIME MINISTER

HOUSING BILL, SPOUSES OF ASSURED TENANTS

You may recall that last month Messrs. Ridley and Rifkind were unable to agree about the treatment of spouses of assured tenants. Mr. Ridley wanted to give them no security, whereas Mr. Rifkind suggested they should be deemed to be joint tenants. You suggested that a sensible way forward might be to proceed on the basis of an assumption of joint tenancy for spouses which could be at law a rebuttable presumption.

Mr. Ridley saw some difficulties with your suggestion given the likelihood of protracted, and possibly repeated, legal proceedings to establish the position. In his latest letter of 18 May, attached, he has now reversed his earlier resistance to protection for spouses and proposes - instead of the Rifkind idea of joint tenancy - providing a single right of succession for the spouse or common law partner. I imagine Mr. Rifkind will be happy to accept this.

Content to drop your earlier suggestion now that Messrs. Ridley and Rifkind seem to be reaching agreement?

PGC

Yes

PAUL GRAY

20 May 1988

65725



File 754

10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

19 May 1988

Dear Alan

HOUSING IN RURAL AREAS, VILLAGE HOUSING AND NEW VILLAGES

B&M
As you know, the Prime Minister has asked for a further meeting on the above subject and this has been arranged for Thursday 9 June. I should also record that when the Prime Minister saw the papers she asked if there was any evidence about the inadequacies of present policies, or was it just that prices were illustrating the shortage of housing, etc.

I am copying this letter to the Private Secretaries to the Lord President, the Lord Privy Seal, the Paymaster General, the Chancellor of the Duchy of Lancaster, the Secretary of State for Employment, the Chief Secretary to the Treasury, the Minister of Agriculture, Fisheries and Food, the Secretary of State for Social Services, the Secretary of State for Wales and to Sir Robin Butler.

Z...
Andy

P. A. Bearpark

Alan Ring, Esq.,
Department of the Environment.

ALB



2 MARSHAM STREET
LONDON SW1P 3EB
01-212 3434

My ref:

Your ref:

The Rt Hon Malcolm Rifkind MP
Secretary of State
Scottish Office
Dover House
Whitehall
LONDON
SW1A 2AU

18 May 1988

Dear Malcolm

HOUSING BILL

I have now considered further, as mentioned in my letter of 25 April, the practical implications of your proposal that spouses of assured tenants should be deemed to be joint tenants.

Under English law there is both an equitable and a legal interest in a tenancy, and joint tenants may hold a beneficial interest or hold the tenancy in common. There are accordingly several permutations of the joint tenancy, and there are considerable disadvantages with all of them. Not least of these is the possibility that a single succession could become succession in perpetuity in the event of subsequent re-marriages. To deal with this, with the potential conveyancing problems, with the pre-existing rights of joint tenants one of whom marries, and with a number of other difficulties, would require complex and lengthy provisions. We would be enacting legislation which could be difficult to interpret in the courts and which was at variance with the normal law of property at several points. It is simply not worth it, especially since it will be clear to everyone that we are in effect giving a right of succession.

I think that it would be much simpler to provide a single right of succession for the spouse, or for the common law partner, of an assured tenant living with the tenant at the time of his death.

My officials will be in touch with yours to discuss the details of our succession provision. It is of course for you to decide whether, if Scottish law is less complex than English in this area, it is worth your going down the joint tenancy route rather than providing a similar single succession right. I would see some merit in our proceeding in step.


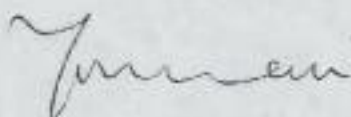
at flat Pt 11



In your letter of 5 May you mention your Lords debate on Rent Act succession. I am content with a transitional arrangement whereby a qualifying family member who has lived with a regulated tenant for six months at the date of commencement should succeed to an assured tenancy, provided he or she continues to live with the tenant until his death. Should the potential successor cease to occupy the home as his only or main residence for any period, then it will be necessary to establish a full two years residence, dating from the point at which he resumes residence, in order to succeed to the tenancy.

I shall write to you separately about the other issue raised in your letter of 5 May, the charging of premiums for assured tenancies.

✓ I am copying this letter to the Prime Minister in view of her interest in the joint tenancy question, and to Peter Walker.



NICHOLAS RIDLEY

HOUSING Policy pr 12



CCB

Abpm



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

18th May 1988

Dear Secretary of State,

HOUSING IN RURAL AREAS: VILLAGE HOUSING AND NEW VILLAGES

at top pt 11

Thank you for copying to me your minute and attachments of 29 April to the Prime Minister.

I am pleased to note that the public expenditure involved in your proposals on housing in rural areas will be found from within the existing provisions for the Rural Development Commission and the Housing Corporation, and I am content with your proposed announcement.

I am copying this letter to the Prime Minister, John Wakeham, John Belstead, Norman Fowler, Peter Brooke, Kenneth Clarke, John MacGregor, Donald Thompson and to Sir Robin Butler.

Yours sincerely,

pp JOHN MAJOR

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

HOUSING Policy pt 12





10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

16 May 1988

BF 11
This is just to confirm that there will be a meeting to discuss rural housing at 0930 hours on Thursday 9 June.

I am copying this letter to the Diary Secretaries to the Lord President, the Lord Privy Seal, the Paymaster General, the Chancellor of the Duchy of Lancaster, the Secretary of State for Employment, the Chief Secretary to the Treasury, the Minister of Agriculture, Fisheries and Food, the Secretary of State for Social Services, the Secretary of State for Wales and to Sir Robin Butler.

(MRS. TESSA GAISMAN)

Ms. Michelle Cameron,
Department of the Environment.

Pm

MEETING RECORD

SECRET

2 Subject cc Master.

BF vol 3



10 DOWNING STREET

RESTRICTED DISTRIBUTION REQUIRED

SEE INSTRUCTIONS IN LETTER

SECRET

SECRET



*file 116
cc Peter Stredder*

10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

11 May 1988

HOUSING

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

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

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

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

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

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

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

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

SECRET

- 3 -

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

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

PAUL GRAY

Roger Bright, Esq.,
Department of the Environment.

HOUSING Policy pt 12

12/12/12



L04
ATX

G.P.

Re type fair to
my signature.
P.R.G.

SECRET

~~DRAFT LETTER FROM PAUL GRAY TO ROGER BRIGHT~~

HOUSING

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

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

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

a. The scheme had major political and policy attractions. These included the extension of private ownership, a substantial reduction in the number of people on housing benefit, and a major expansion of the cheap end of the housing market.

Spot

b. It would be important to ensure that flexi-ownership did not undermine the Right to Buy. But there were clear differences between ~~the two schemes~~ ^{Right to Buy and flexi-ownership}. For instance, a person who opted for flexi-ownership would not receive the full Right-to-Buy discount: it would be 5 or perhaps 10 per cent less. And, whereas under the Right-to-Buy scheme the householder received the full benefit of increases in the

Lead to
reconnect
to be
young
purchasers
of private
sector
houses,
no

The group then considered the proposals for a new financial regime for local authority housing and rents which the Secretary of State for the Environment had summarised in his minute of 6 May. Summing up this part of the discussion, the Prime Minister said that although they accepted that housing accounts should be ring-fenced as the Secretary of State had proposed, the group still had misgivings about the proposed power to require authorities to pay surpluses from their Housing Account to their General Fund (the Required Minimum Payment) as well as about the power to claw back surpluses to the Exchequer. They therefore wished to explore an alternative approach which involved meeting the costs of housing benefit internally within Housing Revenue Accounts combined with a system of Government deficit subsidy. The Group invited the Secretary of State for the Environment to prepare a paper examining this approach.

Finally, there was a brief discussion of your Secretary of State's proposals on the landlords' code in which it was suggested that ~~the right~~ ^{an alternative} approach might be to transfer the relevant responsibilities of public sector landlords to private sector landlords by contract rather than by some more formal statutory mechanism. The Prime Minister would be grateful if your Secretary of State would consider the issues further in consultation with the other Secretaries of State concerned in the light of the discussion and see whether a solution can be found.

I am copying this letter to the private secretaries of the Ministers at the meeting and to the others present.



10 DOWNING STREET

Andy

You wanted to see
P. Stredders note dated
4.5.88 (as loop) today.

Also, Kenneth Clarke
is content with SS/ENV's
minute of 29/4 to PM.

As NSM.

DOE expecting fresh counts.
No action until they come back to
us.

End
11.5.88

PM
11/5

cc/BG

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



From the Minister

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

10 May 1988

Dear Nildy,

HOUSING IN RURAL AREAS: VILLAGE HOUSING AND NEW VILLAGES

I have seen your minute ^{at 11.15} of 29 April to the Prime Minister setting out proposals for action on rural housing.

I very much endorse what you are proposing and the idea of announcing additional funding for rural housing associations at the same time as we issue the discussion paper on Village Housing and New Villages which will be much more controversial.

I am happy with the draft announcement and with the first paper. However, I do wonder whether the third sentence in paragraph 4 of the discussion paper on Village Housing and New Villages is not a little strong. It is already quite difficult enough for farmers and others seeking to diversify in specially protected areas to obtain planning permission and I would prefer the sentence to read:

"There can be no question of abandoning the Green Belt or of significant new development impinging on Areas of Outstanding Natural Beauty or other statutorily protected areas".

If possible I would also like to see some references to the diversification of the rural economy as this is needed to assist agriculture to adjust. For example the second sentence of para 13 might be amended to read:

"Those changes and their policy implications were described in a new set of Government publications in 1987 under the general heading Farming and Rural Enterprise. These emphasise the need to foster the diversification of the rural economy so as to open up wider and more varied employment opportunities. The joint Ministerial Foreword..."

/In addition it...

In addition it might make sense to amend the second sentence of para 22 to read:

"In doing so they will have to take account of the distinctive needs of the rural economy, of farm diversification and of other development needs in their area, including provision for new housing."

It would also be helpful to know exactly when your statement is to be made since I am sure it will be of considerable interest to the farming community. For the same reason I should like my officials to be consulted about the wording of the new Planning Policy Guidance notes eventually envisaged.

I am copying this letter to the Prime Minister, John Wakeham, John Belstead, Peter Brooke, Kenneth Clarke, Norman Fowler, John Major, John Moore, Donald Thompson and Sir Robin Butler. A copy also goes to Peter Walker since my comments may be of interest to him in his capacity as an Agriculture Minister.

ds. *We have of course had a read about*

Yes are,

John

JOHN MacGREGOR

Housing Policy Pt 12





Caxton House Tothill Street London SW1H 9NF

5803

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✓ CEBG
 nbpm yet
 B/F II Wed
 10/3
 9/5

The Rt Hon Nicholas Ridley MP
 Secretary of State for the Environment
 Department of the Environment
 2 Marsham Street
 LONDON
 SW1

May 8 1988

Nick

HOUSING IN RURAL AREAS : VILLAGE HOUSING AND NEW VILLAGES

Thank you for sending me a copy of your minute and attachments of 29 April to the Prime Minister.

I welcome your proposal to open up for wider discussion the subject of housing in rural areas and agree that a fairly low key approach is desirable in view of the current concern about the Green Belt. I believe that your discussion paper on Village Housing should effectively allay such concerns and I welcome the drafting improvements you have introduced. As I said in responding to the earlier draft which you circulated, the encouragement of increased and more diverse housing provision in rural areas in response to need can only benefit the rural economy and help to maintain and promote enterprise in those areas.

I am copying this letter to the Prime Minister, John Wakeham, John Belstead, Peter Brooke, Kenneth Clarke, John Major, John MacGregor, Donald Thompson and to Sir Robin Butler.

Norman Fowler

NORMAN FOWLER

Housing Policy Pr 11



PRIME MINISTER6 May 1988HOUSING POLICY WORKING DINNER

Nicholas Ridley's note reiterates the three elements of his council housing finance proposals. Rather than confining discussion to these we suggest that you should use Monday's dinner to stand back and look again to see whether we can cut through some of the undesirable side effects of his approach.

During all our discussions on housing policy one unsatisfactory feature has remained - housing benefit. On the one hand a more market orientated housing policy increases the number of people on housing benefit, on the other housing benefit is inimical to a market solution because it insulates tenants from the effects of rent increases.

Peter Walker's proposal could play a key part in resolving this conundrum. This note shows how.

The Three Groups of Tenants

There are three, essentially different, types of council tenant:

- The very poor, whose rent at present is paid in full through housing benefit. These include pensioners, the long term sick and disabled, single parent families and the unemployed.

- The working poor who pay part of their rent themselves but for whom the balance is paid through housing benefit. This group is unable to afford 'right to buy' and experience the high marginal rate of taxation associated with housing benefit. Those moving out of unemployment into this group are also similarly affected.
- Those tenants who pay a full rent. Most, if not all, of these tenants could afford to exercise the 'right to buy' and we encourage them to do so.

Tackling Housing Benefit Dependence

Right to buy has been very successful in helping tenants in the third group become owner occupiers. But it has done little for those in the middle group. On the contrary they have become more dependent on the state since 1979 as their rents have risen in real terms. Yet they are contributing towards their housing costs and we should be aiming to build on this latent independence rather than raising rents further and increasing dependence.

Peter Walker's scheme is ideally suited to this task. Because they are already contributing to their housing costs, tenants in the middle group could afford to pay for routine maintenance if they became flexi-owners. Those making larger contributions to their rents would actually be better off (paying perhaps £3-£4 a week for maintenance as compared to an average local authority rent of £17.50 a week). More fundamentally, they gain the pride and responsibility of becoming home owners, owning outright a significant stake in an appreciating asset. Their effective marginal rate of tax and benefit in the hand drops from 87% to 44%.

*Flats -
scheme change*

Incremental Option

At one end of the spectrum of options we could simply make Peter Walker's scheme available, marketing it vigorously towards this intermediate group. We would make it clear that it was not as financially attractive as full right to buy for those who could afford it and probably unsuitable for most tenants on full housing benefit because they would receive no help with maintenance costs. This would certainly reduce dependence on housing benefit to the extent that the scheme was taken up.

Radical Option

At the other end of the spectrum one could abolish housing benefit for council tenants, restrict subsidised council housing to the very poorest and introduce a financial framework that avoids the need to claw back surpluses. The key elements of this approach would be:

- change income?*
- Tenants who currently receive full housing benefit (ie those whose incomes are at or below income support levels) would in future be rent free council tenants. In practice their position would be no different from at present, but we would end the nonsense of paying out housing benefit with one hand and taking it all back in rent (at source) with the other.
 - All other tenants would have one of three options:
 - remaining a tenant and paying a market rent, in full, from their own income;
 - becoming a flexi-owner;
 - exercising 'right to buy'.

In order to avoid creating a poverty trap for tenants with incomes close to income support levels there would need to be a small band of income above the threshold for entitlement to free accommodation in which tenants would be required to pay a means tested contribution towards their housing. This could be the same as under the Housing Benefit system (ie 65% of income above the income support level). An upper limit would be placed on the incomes of tenants who are entitled to accommodation at these subsidised rents at the point at which the amount paid roughly equates to main tenant costs - say an income of £5 a week above income support rates. Above that, tenants would have to pay a full market rent.

Advantages

This approach has the following advantages:

- it abolishes housing benefit for council tenants;
- it makes no tenant worse off than at present because tenants receiving partial housing benefit or paying a subsidised council house rent in full can afford flex-ownership whilst those receiving full housing benefit continue to receive accommodation rent free.
- it dramatically reduces disincentives to work for all tenants except those whose incomes fall in the narrow band between income support levels and the upper limit for subsidised rents.
- it creates a financial framework in which all local authorities require subsidy for their council housing (see next para).

Financial Effects

Local authorities would continue to incur management and maintenance costs and loan charges but would receive significant income only from the small number of tenants who opt to pay a full market rent. The housing account would be ring fenced and Government subsidy would be paid to cover the gap between income and expenditure based on standard assumptions about management and maintenance costs, actual loan charges and the actual number of full rent paying tenants multiplied by a standard assumption about the rent they are paying. Although local authorities would have freedom to set rents and spend as they wished within this framework it could be made sufficiently tight to make it difficult for them in practice to set rent levels significantly below the desired level. The cost of this new subsidy would be met from the existing housing subsidy and housing benefit subsidy, by abolishing rate fund contributions and by the savings in management and maintenance costs of houses bought by flexi-owners.

Effect on Tenants Choice

This approach is intended to be a framework for discussion rather than a fully developed policy. In principle it is not incompatible with 'tenants' choice' because housing associations and other private sector landlords would still be able to compete on quality of service. Almost all tenants would be living rent free and would continue to have their rent paid by housing benefit if they transferred to a new landlord. The small number of other tenants might well pay lower rents if the new landlord could manage the system more efficiently or generate income by development or disposing of unwanted assets. As with full 'right to buy' tenants would have a preserved right to opt for flexi-ownership, the cost of which would similarly have to be taken into account in the transfer terms.

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Conclusion

We recommend that you take the opportunity of Monday night's dinner to look at some key aspects of council housing policy afresh. Peter Walker's proposals for 'flexi-ownership' could provide a key element in a revised approach designed to minimise the impact of housing benefit or even abolish it for council tenants whilst removing the need to force local authorities to generate surpluses on their housing accounts and claw these back to the Exchequer.

Peter Stredder

PETER STREDDER

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PRIME MINISTER

LOCAL AUTHORITY HOUSING: WORKING SUPPER ON 9 MAY

I attach five papers you may like to look at over the weekend:

Flag A - a note by Richard Wilson;

Flag B - a note by Peter Stredder;

Flag C - a short note by Mr Ridley summarising the three key elements in the proposals he put to the last meeting of E(LF);

Flag D - Mr Walker's summary of his scheme for flexi-ownership (which you have already seen);

Flag E - the minutes of the last E(LF) meeting.

Mr Ridley seems to want to focus the discussions fairly narrowly on the package he put to E(LF). Richard Wilson, Peter Stredder and I all feel this would be a mistake, and that you should use certainly this first meeting of the smaller group of Ministers to stand back from the details and look again at housing policy from first principles. This must include considering the possible role of Mr Walker's flexi-ownership scheme, which looks increasingly attractive.

The notes by Richard Wilson and Peter Stredder have a lot of similarities, in part reflecting discussions the three of us have had over the last few days. The radical thoughts in them are in part stimulated by the opportunities offered by Mr Walker's scheme, but also by the growing realisation that, for the poorest category of council tenants, there must be a better way of providing what is tantamount to free housing than the present convoluted arrangements.

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Towards the end of Monday evening's discussions, you will want to consider the next procedural steps. I suggest:

- (i) Identifying the issues that you want Richard Wilson's parallel group of officials to consider further.
- (ii) Convening a further meeting of the Ministerial group, perhaps on a more formal basis, in about two weeks' time. You might want for that meeting to consider allowing each Minister to bring one official along.

PRCG.

PAUL GRAY
6 May 1988



Prime Minister

NEW FINANCIAL REGIME FOR LOCAL AUTHORITY HOUSING: RENTS

For our discussion on Monday I thought it might be useful to set out, very briefly, the three elements to my proposals.

First, we need a ring fence around local authorities' housing accounts in order to get their activities on to a more businesslike basis. This was foreshadowed in the Manifesto and Housing White Paper. It will enable us to limit the flow of subsidy, provide a stimulus to efficiency, and prevent councils from causing increased public expenditure and creating dependency, by deliberately allowing their rents to fall in real terms. To be effective for these purposes, the ring fence must include a mechanism (which I have called the RMP) for paying surpluses from the Housing Account into the authority's General Fund.

Secondly, we could, if we wished, use the RMP mechanism to increase rents in real terms - through higher payments into the General Fund - and so reduce unfair competition between council housing and other sectors and keep up the pressure for right to buy sales and disposals of local authority stock to other landlords. We would not be committed in advance to a particular rate of increase: we would decide each year on the increase we judged appropriate. We could adjust our policy in the light of the Housing Benefit consequences.

Thirdly, if we do decide to increase rents in real terms, I would like to see a system which brings all or most of the surpluses paid into the authority's General Fund back to the Exchequer. This would both produce public expenditure benefits and avoid distorting the community charges in areas where the larger surpluses arose. We can discuss different ways of achieving this, but it can be done either by reductions in grant or by some system of recovery.



Ideally, I would like to proceed with all three of these. But a decision to include the first in this Autumn's Housing Bill does not automatically commit us to go ahead with the second and third as well. It is urgent to decide about the first - the ring fence.

I am copying this to Peter Walker, John Moore, Malcolm Rifkind, John Major, William Waldegrave and to Sir Robin Butler.

A handwritten signature in dark ink, appearing to read "R Butler".

Handwritten initials "NR" in dark ink.

N R

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

6 May 1988

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P 03105

PRIME MINISTER

LOCAL AUTHORITY HOUSING: NEW FINANCIAL REGIME AND FLEXI-OWNERSHIP

DECISIONS

1. You may wish to use this occasion to continue the Second Reading debate on local authority housing finance which was begun in E(LF) on 3 May, and decide the broad shape of the policy options which need to be explored. We will then arrange for the work to be followed up at official level, so that a further meeting of the Ministerial Group can consider papers in about two weeks' time.

2. The main proposals on the table are:
 - i. Mr Ridley's reforms of rents and the financial regime for council housing, which he has summarised in a short note today seeking urgent agreement to the ring fence; and
 - ii. Mr Walker's proposal for flexi-ownership, of which everyone present at the discussion will be aware.

3. These two sets of proposals are not necessarily mutually exclusive. It might be possible to pursue Mr Walker's scheme, or some variant of it, as a means of achieving a significant reduction in the number of council tenants; and then combine it with a simpler version of Mr Ridley's proposals for the substantial volume of council housing which would remain with local authorities, in a way which avoided the worst pitfalls. You may therefore wish to avoid the discussion being drawn too deeply into the details of Mr Ridley's scheme, but instead focus it on the wider picture.

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BACKGROUND

4. Some key facts and figures:

i. there are now about 4.5 million council dwellings in England compared with 5.1 million in 1979, before the Right to Buy was introduced. Roughly 40 per cent of these dwellings are flats and maisonettes and roughly 60 per cent are houses;

ii. around 65 per cent of council tenants in England (2.9 million) receive housing benefit compared with 43 per cent who received help with their rents in 1979 (2.2 million). The increase from 43 to 65 per cent is attributable to Right-to-Buy sales to better-off tenants (45 per cent of the increase), demographic factors and unemployment (35 per cent) and real rent increases in the early 1980s (20 per cent);

iii. in Wales there are about 250,000 council dwellings. About 70 per cent of tenants receive housing benefit.

5. A summary of housing revenue accounts in England is set out in the table attached to this brief. It conceals some very large variations between individual authorities. Some have large deficits on their housing accounts, financed by Exchequer subsidy and rate fund contributions. Some have surpluses. Some have the capacity to make surpluses but see no reason to do so. The average rent in England in 1987-88 was £17-23 per week but the averages for individual authorities varied from £13-23 to £29-96 per week.

30

PROBLEMS WITH THE PRESENT FINANCIAL REGIME

6. Mr Ridley's proposals are designed to deal with a number of weaknesses in the present financial regime:

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i. the Government has no effective mechanism for achieving its policies on rents and maintenance. It can reduce its subsidy to the minority of authorities which receive it (86 out of 466) but even they can replace the loss with rate fund contributions;

ii. authorities have no incentive to increase rents beyond what is needed to cover historic costs. Moreover, historic costs are gradually falling in real terms, encouraging a similar trend in rents;

iii. if local authorities do increase their rents, this adds to Exchequer spending because additional housing benefit payments to 65 per cent of the tenants outweigh the savings on housing subsidy;

iv. low council house rents deter new landlords from entering the market because they cannot compete with local authority rents;

v. low council house rents also make the Right-to-Buy scheme less attractive because renting appears so attractive financially;

vi. the bias of the system is towards increasing the dependency of tenants on local authorities.

7. Mr Ridley's proposals seek to deal with these weaknesses in three steps.

i. He would wish the Government to establish a mechanism which would enable it, if it so wished, to influence local decisions about rents and spending on maintenance. He would do this by ring-fencing housing accounts so that they could not be supplemented by rate fund contributions, reforming housing subsidy and taking power to oblige authorities with surpluses to make payments (Required Minimum Payments or RMPs)

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to their general rate funds. This is the minimum package for which his latest minute is seeking urgent agreement.

ii. He would want the Government year-by-year to consider using this mechanism as a means of gradually increasing rents, by requiring local authorities to make higher payments (or RMPs) into their general rate funds. This would reduce the gap between the private and public sector and encourage Right-to-Buy sales and disposals to private landlords. But on its own it would still leave the surpluses with local authorities and, as rents increased, so would public expenditure because of Housing Benefit.

iii. As a third element therefore he would want to have power to claw back surpluses to the Exchequer, both to offset the increased public expenditure and to prevent local authorities from using their surpluses to reduce - perhaps eliminate in some cases - their community charge. There is a hint of flexibility in Mr Ridley's latest minute about the mechanism for recovering surpluses, but it is not clear what he has in mind.

8. Mr Ridley suggests that the three elements can be considered separately, but they clearly make most sense as a package.

MR WALKER'S FLEXI-OWNERSHIP

9. The disadvantages of Mr Ridley's approach were discussed at E(LF). Quite apart from the difficulty in practice of clawing back surpluses, and the public expenditure implications of not doing so, the proposals need to be assessed in the context of the other Government initiatives which will be affecting local authorities and council tenants over the next 2 to 3 years. They include the social security charges, the introduction of the community charge, a new capital control system, Housing Action Trusts, Right-to-Buy, tenants' choice and Action for Cities. You may therefore wish to broaden the discussion and consider whether

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there are other ways of approaching the problem of local authority housing.

10. Mr Walker's proposals on 'flexi-ownership' offer one completely different approach. They would in effect allow any tenant who was prepared to undertake the cost of maintaining his or her dwelling without public assistance to take an equity stake in it and cease paying rent. If this approach were adopted, council tenants would then fall into a number of different classes.

a. At one extreme there would be the council tenants - typically not on housing benefit - who could afford to exercise their rights under the 'Right to Buy' scheme. If they choose not to do so, a policy of increasing rents might be considered reasonable.

b. At the other extreme, there would be the council tenants who were on full Housing Benefit and who were genuinely in need. For them, council housing would still be the main option; and it would in effect be free housing - as it is now - because Housing Benefit would continue to cover their rents in full, at whatever level they were set.

c. In between these two groups, there would be the council tenants who were still receiving Housing Benefit but were subject to the "taper" and therefore paying part of their rent. For this group the 'flexi-ownership' scheme might be particularly attractive as a means of lifting themselves and their families through the poverty trap and into home ownership, by the gradual acquisition of equity in their dwellings.

12. There would however be a lot of aspects which would need to be properly explored.

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13. First, there is the relationship between 'flexi-ownership' and the Right-to-Buy scheme. On the face of it there would be a clear advantage in the Right-to-Buy scheme for anyone who could afford it because they would benefit from 100 per cent of the increase in the value of their house as prices rose, rather than a proportion of it. But the comparison between the two schemes would need to be carefully judged to ensure that this was easily demonstrated to be so; and it would need careful presentation.

14. Second, there would still need to be improvements in the financial regime for local authority housing to deal with the weaknesses described above, because council housing would still be a substantial sector. The question is whether it could be simpler than Mr Ridley's proposals. You may wish to ask what difference flexi-ownership, if adopted, would make to his thinking. For instance:

a. would it be possible to have an explicit policy of free housing for the genuinely poor coupled with a move to economic rents for those who could afford to exercise their rights under the Right-to Buy or flexi-ownership schemes but chose not to do so?

b. what arrangements would be needed to compensate local authorities for the debt charges which they would presumably still bear for the housing which had been transferred to the Housing Corporation?

c. as part of these compensation arrangements would it be possible to take a fresh look at the way in which Housing Benefit is paid to local authorities? In many cases people who are on Housing Benefit do not actually receive the money but simply pay net rents which are set at nil. Could Exchequer payments to local authorities for housing benefits be brought into some more general scheme of compensation, thereby avoiding the need to claw back surpluses?

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15. Finally, it is clearly important, if flexi-ownership is to be pursued, that there should be a full assessment of its public expenditure implications.

NEXT STEPS

16. You will want to agree during this discussion what further work should be carried out by officials. A first meeting of the official group has been arranged for Tuesday afternoon. If you agree we will arrange for papers to be produced for a further Ministerial meeting in two or three weeks' time.

RJW

R T J WILSON
Cabinet Office
6 May 1988

CONFIDENTIAL

Aggregate HRA, England 1986/87

<u>Expenditure:</u>	<u>£m</u>
Loan charges	3,030
Management and Maintenance	2,508
Other	46
	———
Total	5,585
<u>Income:</u>	
Gross rents	3,707
Interest income from sales	579
Other	384
	———
Total	4,670
<u>Deficit</u>	915



ce RBG

9 MARSHAM STREET
LONDON SW1P 3ER
01-312 3434
My ref:
Your ref:

Geoffrey Podger Esq
PS/The Rt Hon John Moore MP
Department of Health and Social Security
Richmond House
79 Whitehall
LONDON
SW1A 2NS

5 May 1988

Dear Geoffrey,

HOUSING IN RURAL AREAS: VILLAGE HOUSING AND NEW VILLAGES

I attach, for your Secretary of State's information, a copy of a set of papers my Secretary of State has sent to the Prime Minister giving details of his proposed rural housing initiative.

Copies of this letter go to Andy Bearpark (No.10), Alison Smith (Lord President's Office), Nick Gibbons (Lord Privy Seal's Office), Simon Judge (Paymaster General's Office), Peter Smith (Chancellor of the Duchy's Office), Peter Baldwinson (Department of Employment), Jill Rutter (Chief Secretary's Office), Debbie Hayne (MAFF) and Trevor Woolley (Cabinet Office).

*Yours
A D Ring*

A D RING
Private Secretary

not flat



Housing: Policy 1911

1911



Prime Minister

Ridley's paper is attached. Would you like a further meeting on this? Or are you content for the papers to go ahead subject to the points in the minute and colleagues comments?

PRIME MINISTER

4 May 1988

Further meeting - is there any evidence about PQ?

HOUSING IN RURAL AREAS:

VILLAGE HOUSING AND NEW VILLAGES

the independent 12/5
of rural policies? Is it just prices
the challenge of housing etc?
not

Nicholas Ridley seeks your agreement to his publishing, under cover of a written PQ, papers on 'Housing in Rural Areas' and 'Village Housing and New Villages'

Housing in Rural Areas

The paper on Housing in Rural Areas proposes increased funding for rural housing associations, to develop a durable form of shared ownership, to highlight measures already taken to encourage private landlords to develop rented housing in rural areas and to set out the, increasingly limited, role of local authorities in providing rented housing in rural areas. All these proposals look sensible and should attract a welcome.

Village Housing and New Villages

The paper on 'Village Housing and New Villages' deals with the planning aspects of rural housing. It raises the controversial issues of whether we should allow expansion of existing villages that are not 'key settlements' or the development of 'new villages'. It was agreed at your meeting on this subject that the paper should be re-written to indicate that present, more restrictive policies, cause problems that need to be addressed and to stress these, rather than the need for new building.

In fact, apart from the first five paragraphs (which replace the first two in the earlier draft), this draft is almost identical to the earlier version. The new material in these

paragraphs provides some background justification but still approaches the controversial issue of new villages head on. The third sentence of the first paragraph says:

"[This paper] also considers the possibility of new villages on a small scale in areas away from the conurbations and well outside the Green Belts".

Which is only marginally better than the earlier:

"This paper is about housing development in villages and small towns, including the possibility of 'new villages'".

The general impression given in the body of the paper is that the case for changing present policies is not clear cut. For example (paragraph 9) it notes that "over the last 20 years the population in many rural areas has been increasing by more than the national average" and that "the remaining number of shops in rural areas appears to be much higher than is popularly believed". The academic tone of the paper (eg para 12 quoting the views of Professor Hoskyns in 1955) reinforces this impression. What is required is some evidence of the need for change as opposed to theoretical assertion.

In particular, the paper does not offer any really convincing reasons for allowing the development of new villages. The paragraphs dealing with this subject, (31-38) merely note that "there has been some recent interest in the possibility of developing new villages or country towns", "that recent proposals and earlier examples have been on a larger scale", that "there have been very few proposals for new settlements of what could be called a 'new village scale'" and that "the lack of such proposals reflects existing tight planning policy."

Recommendation

The paper should therefore be re-written further to make it much more tentative about the developments proposed. It should produce more evidence about the inadequacies of present policies as background to suggesting the expansion of existing villages that are not key settlements and the development of new villages as possible solutions. Nothing will be lost by expressing Government open-mindedness at this stage. Public debate will certainly develop whilst the Government will be able to take decisions in the light of public reaction.

Conclusions

We recommend that you support Nicholas Ridley's first draft paper about housing in rural areas.

We also recommend that you express reservations about his second paper on the planning aspects of rural housing. The paper as drafted at present is insufficiently convincing about the need for change in an area of policy that is highly emotive. Instead, the paper should consider the evidence for changing the present approach and offer possible solutions without expressing a view on them. This is all that is needed to stimulate public discussion and will put the Government in the best position to formulate policy proposals in the light of public reaction.

Peter Stredder

PETER STREDDER

Hobins

Proc/

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File 10/10/80

10 DOWNING STREET
LONDON SW1A 2AA

4 May 1988

From the Private Secretary

HOUSING POLICY

The minutes of the E(LF)(88) 5th meeting record the Prime Minister's decision to convene a smaller group of Ministers to carry forward the work on various aspects of housing policy. This letter is to confirm that the Prime Minister will be holding the first meeting of the group over a working dinner at 1930 on Monday 9 May.

The Prime Minister has also asked Richard Wilson of the Cabinet Office to chair a supporting group of officials, with representatives from those departments represented on the Ministerial group.

I am copying this letter to Jon Shortridge (Welsh Office), David Crawley (Scottish Office), Geoffrey Podger (Department of Health and Social Security), Jill Rutter (Chief Secretary's Office), Helen Ghosh (Minister for Housing's Office), Sir Robin Butler, Richard Wilson (Cabinet Office) and Peter Stredder (Policy Unit).

PAUL GRAY

Roger Bright, Esq.,
Department of the Environment.

CONFIDENTIAL

Paul

RA

PRIME MINISTER

SMALL MINISTERIAL GROUP ON HOUSING

Following your reaction to my note last night, we have now set up a working dinner for the evening of Monday 9 May, and established a parallel official group under Richard Wilson's chairmanship.

One point on which you did not give a reaction last night was whether to extend the membership of the Ministerial Group (currently Messrs. Ridley, Rifkind, Walker, Moore, Major and Waldegrave) to include a colleague without a departmental axe to grind, such as Mr. Parkinson. Do you want to add anyone?

No

Reeb.

W

Paul Gray
4 May 1988

Harms

Rec'd

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PRIME MINISTER

HOUSING BENEFIT TRANSITIONAL PACKAGE: ANNOUNCEMENT OF DETAILS

Following your reaction to the note you saw last night, I have told DHSS and the Treasury that you do not wish to extend the £2.50 protection to groups other than pensioners (including widows), the sick and disabled, lone parents and families with children.

You asked whether those who could still in practice be £10 a week worse off includes some pensioners. There may indeed be some, as a result of the combined effect of a very high rates bill plus large increases in both rent and rates from this April. We do not know how many, although I suspect very few would be as much as £10 a week worse off.

In any event, I do not think we can do anything further to avoid rare cases of this sort. It has already been made clear in public that the £2.50 a week scheme will not be used:

- "to compensate claimants above the income support level for their obligation to meet at least twenty per cent of the cost of domestic rates". (Your letter to Mr. Kinnock.)
- or to validate rent and rate increases this year.

Those two points apart, the losses of all pensioners and others benefiting from the transitional package will be limited to £2.50.

The arranged PQ announcing the details of the package was not in the event answered today. This followed strong lobbying from the Business Managers to DHSS Ministers that it would be a mistake to make such an announcement the day before the local elections. But we now need to decide when to announce.

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Friday is ruled out on the grounds that it would look too much like a blatant attempt to put out the details the day after the elections and immediately before the weekend. So the choice is between Thursday (tomorrow) and Monday.

The Business Managers favour Monday on the grounds this would distance it from the elections. It would also then be possible to include a few more administrative details that are still being worked out.

Against that, the Opposition do seem to have got wind of the fact that an announcement is imminent and there was some fear that the Lord President would be pressed in the House this afternoon as to when it would be made. In the event, this did not happen. But the point could well arise at your Question Time tomorrow. An announcement tomorrow (Thursday) would offer advantages of:

- enabling you to say at Question Time that an announcement was on the way that day;
- defusing any growing Opposition clamour that announcement was being held back for electoral reasons;
- probably little if any news coverage before Friday.

I understand that John Moore would now strongly prefer to get the announcement out tomorrow. Do you want to express a view on the choice between tomorrow and Monday?

PRCG.

PAUL GRAY

4 May 1988

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FROM THE PRIVATE SECRETARY
TO THE SECRETARY OF STATE
FOR WALES

4 May 1988

Dear Paul

... Attached, as promised, is a further copy of my Secretary of State's paper on flexi ownership.

Yours sincerely
Jon Shortin

J D SHORTRIDGE

Paul Gray Esq
No 10 Downing Street

CONFIDENTIAL

PRIME MINISTER

HOUSING

You concluded at E(LF) this morning that a new ministerial group should be set up to carry the work forward. This group should also cover Peter Walker's ideas on a new method of selling council houses.

We need to settle various aspects of the logistics for this group.

Membership

You concluded that the members should be Mr. Ridley, Mr. Rifkind, Mr. Walker, Mr. Moore, the Chief Secretary and Mr. Waldegrave. All these have a close departmental interest. Given the important general political aspects of the problem, do you want to add another colleague without a particular departmental interest; Mr. Parkinson would be one possibility?

Official Support

I think there would be advantage in having a group of officials from the same departments to shadow the ministerial group. A possible model to follow would be the arrangements for the NHS review.

Content for Richard Wilson to chair such a group?

Yes

Timing of next Ministerial meeting

Mr. Ridley is anxious to make early progress given the need to prepare for a Bill next Session. You mentioned the possibility of having to meet at the weekend.

Having looked at the diary, your Sundays are pretty well taken up over the next month or so with speechwriting. In theory you could hold a meeting on either Sunday 8 or Sunday 15 May. But Sunday 8 May will follow the Saturday engagements at Harrow and Mr. Thatcher will only just have arrived back from a week abroad. Sunday 15 May will follow your return from Scotland the previous evening.

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An alternative might be to have a week day evening meeting over supper. One possibility would be Monday 9 May following your drinks with MPs from 1800 to 1900. An early meeting of this sort could then commission further work by officials with a report back to a meeting of the ministerial group say two weeks later.

Content to arrange a meeting on the evening of Monday 9 May?

Yes

Recg.

PAUL GRAY

3 May 1988

SLHAVP

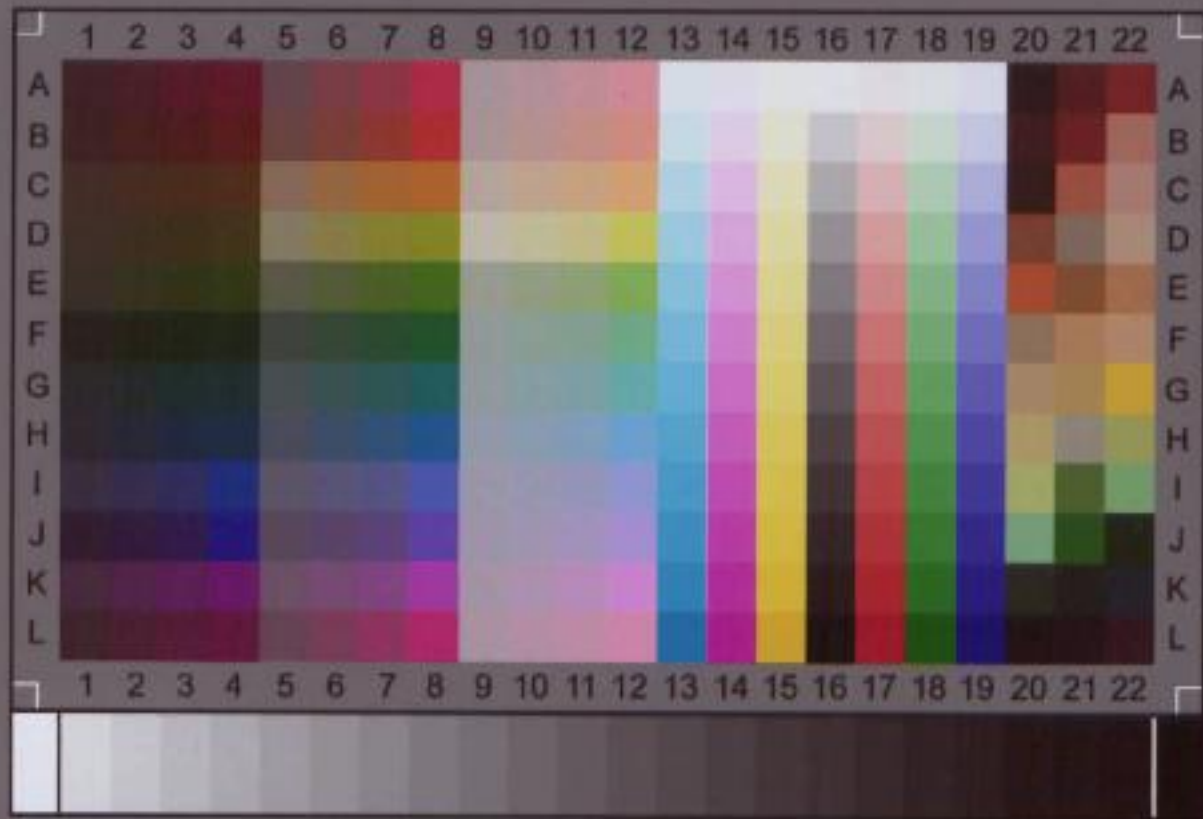
HOUSING Policy pt 11

● PART 11 ends:-

SS/ENV to Pm 29.4.88

PART 12 begins:-

Pg to Pm 3.5.88



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