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PREM 19/2239

HOUSING POLICY.

HOUSING BILL.

HOUSING

Part 1 : May 1979.

Part 13 : Aug 1988.

Referred to	Date	Referred to	Date	Referred to	Date	Referred to	Date
22-12-88							
PART CLOSED PA PREM 19/2239							

PART 13. ends:-

SS/Scott to SS/DOE.

PART 14. begins:-

CST to SS/DOE.



ST. ANDREW'S HOUSE
EDINBURGH EH1 3DG

cap

NBSM

PRCG

BF

12/1

*NBSM of this stage.
A. BIF = 2 weeks*

PRCG

22/12

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

22 December 1988

Dear Nick,

HOUSING AND LOCAL GOVERNMENT BILL: SCOTTISH PROVISIONS

Per memo PG

I wrote on 8 December enclosing a list of provisions on the community charge and rating systems in Scotland which I suggested might be included in this Session's Housing and Local Government Bill. This letter seeks your agreement, and that of E(LF) and (L) Committees, to the extension to Scotland of two more of the housing measures you will be including in this legislation.

It has already been agreed that Scottish provisions on the abolition of the Home Loan scheme will be included in the Bill, and we have also agreed the extension to Scotland of the provisions you propose to widen the scope of the housing mobility schemes. It would be helpful, however, if we could join with you also in making provision on funding agency services, and in clarifying authorities' power to dispose of all of their housing stock.

In Scotland, as in England and Wales, neither I nor local authorities have any specific powers to assist agency services schemes. While there has been no challenge to date, I should like to join you in clarifying the position by providing clear powers both for myself and local authorities to fund appropriate bodies in this field.

Secondly, I too would like to remove any doubts on whether an authority can legally dispose of all its housing stock. I would welcome your agreement, therefore, that the provisions you are bringing forward designed to achieve this clarification in England and Wales should be extended also to cover Scotland.

I am copying this letter to the Prime Minister, and to members of E(LF) seeking agreement to these additional proposals for legislation; to the Lord President and Members of L Committee seeking agreement to including appropriate provisions in the Housing and Local Government Bill; and to David Waddington and Sir Robin Butler.

[Handwritten signature]

MALCOLM RIFKIND

Housing : Policy Pt. 13





2 MARSHAM STREET
LONDON SW1P 3EB
01-212 3434

My ref:

Your ref:

nbpm

The Rt Hon Malcolm Rifkind QC MP
Secretary of State
Scottish Office
Dover House
Whitehall
London
SW1

22 December 1988

Dear Secretary of State

LOCAL GOVERNMENT AND HOUSING BILL

Thank you for your letter of 8 December seeking agreement to the inclusion in this Session's proposed Local Government and Housing Bill of a number of further amendments to your community charge and rating legislation. *file with A. / PAR*

As you say, I propose to use the Bill to effect certain changes to the Local Government Finance Act 1988, and one of those already identified has GB-wide applicability. Faced as you are with the need similarly to correct technical deficiencies in the Scottish legislation, I am happy for you to use the Bill for this purpose. I must, however, sound a note of caution.

As you know, the scope of the proposed Bill is very wide and includes a number of essential items in the housing and local government fields. There is already more than enough material to go into the Bill - which is shorter than originally envisaged - and I have been, and continue to be, under great pressure from John Wakeham to hold it to its present proposed length of around 120 clauses. The inclusion of amendments to the Local Government Finance Act is unavoidable, given the need to bring forward necessary provisions left out of the Act originally only because of time pressures or to put right defects identified as we begin to make the regulations necessary for the introduction of the new system. But, aside from unforeseen policy changes, only those amendments which are essential to the effective operation of the community charge, uniform business rate and new grant provisions will be made. There can be no question of taking up room in the Bill with changes which are not essential; and I am particularly concerned that Parliamentary time should not be spent re-fighting battles over our community charge proposals at a time when there is publicity enough as a result of the start of the system in Scotland.



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I believe it is imperative, therefore, if we are to meet the tight timetable for the Bill and to maintain as low a profile for changes to the Local Government Finance Act provisions as their substance deserves, that you keep your amendments to the minimum necessary to make your legislation work. Subject to that proviso, I am content that you should establish a foothold in the Bill as introduced, leaving the majority of the amendments to be brought forward at a later stage - although this is something on which the business managers will no doubt have a view.

As to the specific provisions annexed to your letter, my officials will be contacting yours to discuss the detail. In particular, I know that they are already in touch about your proposed E(LF) paper on arrangements for moving towards a common non-domestic rate poundage.

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

Yours sincerely
R. Ridley

pp NICHOLAS RIDLEY

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



CDFU
nbpm

DEPARTMENT OF HEALTH AND SOCIAL SECURITY

Richmond House, 79 Whitehall, London SW1A 2NS

Telephone 01-210 3000

From the Secretary of State for Social ~~Services~~ Security

Roger Bright Esq
Private Secretary
Department of the Environment
2 Marsham Street
LONDON

SW1P 3EB

22 December 1988

HOUSING MOBILITY: POWERS TO FUND NATIONAL SCHEMES

My Secretary of State has seen your *- file with PG* Secretary of State's minute of 9 December to the Prime Minister and has indicated his support for the proposals contained therein.

I am copying this to Paul Gray, Private Secretaries to Members of E(LF), Alison Smith (Lord President's Office) and Trevor Woolley (Cabinet Office).

Yours sincerely
Jeremy Groombridge

JEREMY GROOMBRIDGE
Assistant Private Secretary

transing: Police P13.



C.C.P.U.



2 MARSHAM STREET
LONDON SW1P 3EE
01-217 3434

My ref:
Your ref:

nbpm

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

22 December 1988

Dear Chief Secretary,

PRIVATISATION OF COUNCIL HOUSING

Thank you for your letter of 7 December. I have also seen John Moore's letter of 8 December and Malcolm Rifkin's of 8 and 14 December on the same subject.

I have looked again at the basis on which councils consult their tenants prior to voluntary sale of their tenanted housing. At the moment, the requirements are set down in Schedule 3A to the Housing Act 1985 (as inserted by Schedule 1 to the Housing and Planning Act 1986). As well as requiring councils to give information to their tenants and invite their comments, the Schedule gives tenants a right to make representations to me. If it appears to me that a majority of the tenants concerned oppose the disposal, I must refuse consent to it. In any other situation, I have discretion whether or not to give consent.

Unlike "Tenants' Choice", Schedule 3A does not expressly require a ballot. But since councils need to show that there is not a majority of tenants against the proposal, some organised form of collecting tenants' opinions, at least resembling a ballot, seems unavoidable.

One lesson from those ballots which have taken place so far is that opponents of the sale quickly exploit any alleged unfairness in voting arrangements, and successfully use this to tarnish the proposed disposal itself. Moreover, as we have seen at Torbay, if there is substantial opposition, albeit less than the 50% required to veto the proposal, it is relatively easy for further evidence to be brought forward which at least calls into question the reliability of the council's vote.

Against that background, I have come to the view that it would be counter-productive for councils to use anything other than a simple majority vote as the basis for deciding whether to submit their proposals to us. Fortunately, councils seem to be coming to the same conclusion for themselves, and the Electoral Reform

Society is also urging them to adopt this form of vote. The message that it is best to proceed on a simple majority basis will be re-inforced in my officials' contacts with councils.

I do not, however, want to go further and change Schedule 3A, for two reasons. First, there may be instances in which, in a close run ballot, it would be right to allow the council to proceed, even if a small majority opposed the sale and I should therefore like to retain a measure of discretion. Second, I do not want to arouse pressure for a change in the Tenants' Choice voting arrangements. I believe Tenants' Choice can properly be distinguished because tenants not only have a collective vote but also an individual right to remain council tenants, which is not available in the case of voluntary disposals.

This leaves us with the handling of Torbay's proposed disposal. On this, I propose that we write to the Council saying that I am minded to turn down their application, in view of confusion surrounding the vote and the various representations on it that have been made to me, but that I should be willing to reconsider if they provided evidence of greater positive support by tenants, obtained through a postal vote (which the Electoral Reform Society believes would produce a significantly higher number of respondents).

Lastly, in response to Malcolm Rifkind's letter of 14 December, I would not want to adopt his suggestion of inviting only the opponents to express their views, for the reasons explained earlier. It is clearly for him to judge, but if a simple majority vote is adopted in England as, in practice, the way in which councils decide whether to go ahead with an application to sell their housing stocks, I would have thought that an approach apparently less favourable to tenants in Scotland would simply arouse the kind of controversy we have seen at Torbay.

I should like us to respond to Torbay in the first few days of January, so I should welcome any comments from colleagues by Wednesday 4 January.

I am copying this letter to the Prime Minister, John Moore, Malcolm Rifkind, Peter Walker and to Sir Robin Butler.

*Yours sincerely,
Deborah Lamb*

PP NICHOLAS RIDLEY
(Approved by the Secretary of State and signed in his absence)

23 XII 10 AM

HOUSING: Policy Pt 13



PRIME MINISTER

NBLM

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HOUSING SUBSIDY ON RESIDUAL DEBT FOLLOWING LARGE-SCALE DISPOSALS

I was about to write in support of John Major's letter to you of 15 December when the later letter from your office to DOE came to me. I should be happy for us to consult either on the basis of a 90% or a 100% subsidy without further E(LF) discussion.

When I originally asked for a 90% subsidy rate for voluntary disposals in Wales, it was in the belief that this was the minimum necessary to encourage authorities faced with the prospect of residual debt to go down that road. I would prefer the higher figure, since this would speed the movement away from municipal housing; that said, I am happy to consult on the basis of a 90% subsidy if that is what colleagues prefer.

It seems to me that the sooner we issue the paper the better. Until such time as we give some formal indication of a subsidy figure, no authority facing the likelihood of residual debt will be willing to put further effort into investigating transfer. Delay will frustrate the very thing we are hoping to achieve.

As for subsidy on residual debt following compulsory disposals, I am inclined to agree that there would be advantages - not least in terms of promoting and defending our policies - in paying the same rate as for voluntary disposals.

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

PW

21 December 1988

Housing: Policy 1913

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CEPO



Treasury Chambers, Parliament Street, SW1P 3AG

Dr
C D Powell Esq
Private Secretary
10 Downing Street
London
SW1A 2AA

21 December 1988

Dear Charles

REVIEW OF HOUSING SUBSIDY FOLLOWING LARGE SCALE DISPOSALS OF STOCK

The Chief Secretary has seen your letter of 19 December to Roger Bright, and Deborah Lamb's reply. *like will this*

The Chief Secretary agrees with the Secretary of State for the Environment that we should go out to consultation now on 90 per cent subsidy towards residual debt charges following large scale disposals, and that 100 per cent subsidy should remain as a fall-back.

The Chief Secretary also agrees with the Secretary of State that, at this stage, we should avoid moving to a similar level of subsidy for outstanding debt after Right-To-Buy and Tenants' Choice sales. The move would entail a 15 percentage point increase in existing subsidy and a substantial addition to Exchequer costs. It would represent very poor value for money since it is difficult to see what policy advantage would flow from such a move. We have not come under pressure to increase the subsidy, and since both Right-to-Buy and Tenants' Choice are statutory obligations for authorities, we have no need to employ subsidy as an incentive for sales, as may be the case with voluntary large scale disposals. Like the Secretary of State the Chief Secretary sees merit in going out to consultation on the existing 75 per cent subsidy rate and testing the public reaction to that. The question of any move to a higher rate can be reconsidered in the light of responses to consultation.

I am copying this letter to the Private Secretaries to members of E(LF), the Legal Secretary to the Attorney General and to Sir Robin Butler.

Yours,

Cairns

MISS C EVANS
Private Secretary

Hausink: Polay

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EAM AKQ



10 DOWNING STREET

LONDON SW1A 2AA

From the Private Secretary

21 December 1988

See Journal

REVIEW OF HOUSING SUBSIDY FOLLOWING LARGE-SCALE
DISPOSALS OF STOCK

The Prime Minister has considered the points raised in your letter of 21 December and that of Carys Evans' to Charles Powell. On the level of subsidy for sales under Right to Buy and tenants' choice, she believes that it is poor tactics to be driven up to 90 per cent rather than starting there on consultation. But, in the light of the views expressed, she is content that the consultation document should include the 75 per cent figure. As a result, there is no need for a meeting on this issue.

I am copying this letter to the Private Secretaries to members of E(LF), the Legal Secretary to the Attorney-General and to Sir Robin Butler.

Yours sincerely

Dominic Morris

DOMINIC MORRIS

Miss Deborah Lamb
Department of the Environment

✓

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PRIME MINISTER

HOUSING SUBSIDY AND TOMORROW'S E(LF)

You commented on Richard Wilson's earlier note (flag A) that if colleagues will all agree on a 90 per cent subsidy for usual ^{daily} bank charges with 100 per cent subsidies as a fall-back you too were prepared to agree to this (and there would be no need for the E(LF) meeting scheduled for tomorrow morning). You also wanted the same rules to apply under the Right to Buy and Tenants' Choice.

Richard Wilson's latest note (flag B) reports that colleagues are all agreed on usual bank charges but that Mr. Ridley and Mr. Major are still holding out to go to consultation on 75 per cent on Tenants' Choice and the Right to Buy (though with 90 per cent or 100 per cent subsidy as a fall-back in the light of the consultation). The key question is how fast you want to get to the 90 or 100 per cent figure.

Content to agree to consultation on the basis proposed by Mr. Ridley?

OR

Yes not

Do you want E(LF) to go ahead tomorrow to resolve this issue?

Jm

DOMINIC MORRIS

21 December 1988

PM3AFU

ref U



2 MARSHAM STREET
LONDON SW1P 3EB
01-276 3000

My ref:

Your ref:

C D Powell Esq
Private Secretary to
The Prime Minister
10 Downing Street
LONDON
SW1A 2AA

21 December 1988

Dear Charles,

HOUSING SUBSIDY REVIEW FOLLOWING LARGE SCALE DISPOSALS OF STOCK

Thank you for your letter of 19 December. Subject to one qualification my Secretary of State would accept the suggestions the Prime Minister makes.

As his own minute showed, the question of the rate at which to subsidise residual debt is a finely poised one. He agrees it would make sense to go out to consultation on the basis of 90%. That, for the moment, preserves the incentives for councils to obtain value for money but gives us more time to assess whether the 10% cost to the authority would, in fact, be an impediment to voluntary large scale disposals. We are fortunate in England that so far none of the councils seriously considering disposal is pressing us on this question of subsidy and therefore they do not appear to be at risk of ending up with residual debt. The policy of encouraging voluntary disposals relies very heavily however on incentives, and we should look further at 100% in the light of the consultations.

On the other hand, my Secretary of State would advise against 90% for sales under Tenants' Choice or sales to tenants. In these cases there is no need for financial incentives to authorities because mandatory provisions exist as a back-up. Although a common figure has simplicity, 90% here too would have higher costs for the Exchequer. But on this point also we can announce a low figure (namely 75%) in the consultation document and review it if evidence suggests there is a need for further thought.

I am copying this letter to the Private Secretaries to members of E(LF), the Legal Secretary to the Attorney-General and to Sir Robin Butler.

Yours,
Deborah.

DEBORAH LAMB
Private Secretary

Housing: Policy Pt 13



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MR MORRIS

REVIEW OF HOUSING SUBSIDY FOLLOWING LARGE SCALE DISPOSALS OF STOCK

file with R
Mr Powell wrote to Mr Ridley's Private Secretary on 19 December about proposals for dealing with the effect on housing subsidy when a local authority sells all or part of its housing stock.

2. Mr Powell recorded the Prime Minister's view that it would be preferable to pay a 100% subsidy on residual debt charges, but that if all other colleagues preferred to go out to consultation on 90% with 100% remaining a fallback, she would accept that. But he also recorded her view that the same rules (90% subsidy) should apply for sales under Right-To-Buy (RTB) and tenants' choice, rather than the 75% subsidy proposed by Mr Ridley and Mr Major. On that basis she hoped that the meeting of E(LF) fixed for 9.30am tomorrow, Thursday could be cancelled.

3. I understand that both Mr Major and Mr Ridley will be writing later today to reinforce their view that the Government should go out to consultation on the basis of a 75% subsidy rate for RTB and tenants' choice, although they accept that it may be necessary to move to 90 or 100% in the light of the responses. I gather that the Chief Secretary feels strongly that the Government should not offer to pay a higher rate of subsidy than is necessary, while Mr Ridley is swayed by the tactical consideration that it would be much easier to increase the subsidy rate as a result of consultation than to stick at 90% if that figure is offered at the outset.

4. You will want to take the Prime Minister's view on these likely responses. If she remains of the view that the Government should offer a 90% subsidy on residual debt resulting from RTB and

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tenants' choice disposals then it appears that E(LP) will need to meet. But if she is prepared to accept consultation on the basis of a 75% subsidy, with the option of moving to 90 or 100% later, then a meeting can be avoided.

R.T.J.

R T J WILSON

21 December 1988

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Housing Policy 1213





SCOTTISH OFFICE
WHITEHALL, LONDON SW1A 2AU

for D-M
C D Powell Esq
Private Secretary
Prime Minister's Office
10 Downing Street
LONDON
SW1A 0AA

NSPm

21 December 1988

Dear Charles,

REVIEW OF HOUSING SUBSIDY FOLLOWING LARGE SCALE DISPOSALS OF STOCK

My Secretary of State has seen your letter of 19 December to Roger Bright, and earlier correspondence on this subject. *file with DM*

As the Department of the Environment's proposals are restricted to England and Wales, Mr Rifkind would be content with either of the options put forward for residual debt subsidy.

I am copying this letter to the Private Secretaries of E(LF) members, to the Legal Secretary to the Attorney-General and to Sir Robin Butler.

Yours sincerely,

David Crawley
DAVID CRAWLEY
Private Secretary

cc PU



MBM

hcg

Treasury Chambers, Parliament Street, SW1P 3AG *2/12*

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

20th December 1988

Dear Nick,

HOUSING MOBILITY: POWERS TO FUND NATIONAL SCHEMES

Thank you for copying to me your ^{*filed*} minute to the Prime Minister of 9 December.

I would be content for you to introduce the additional clause you propose to the draft Local Government and Housing Bill, on the understanding that the new power will not increase manpower or expenditure.

I am copying this letter to the Prime Minister, colleagues in E(LF), John Wakeham, and to Sir Robin Butler.

Yours Ever, *JM*

JOHN MAJOR

Housing: Policy P 13





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10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

19 December 1988

DISPOSAL OF WHOLE COUNCIL HOUSE STOCKS

The Prime Minister has seen Lord Caithness' minute of 14 December about disposal of Council House stocks. She agrees with what Lord Caithness proposes for Torbay-type cases and would be grateful if DOE would inform other colleagues of that solution, resisting the alternative proposals put forward by the Secretary of State for Scotland. The Prime Minister further agrees that the Tenants' Choice voting arrangements should remain unchanged.

I am copying this letter to Carys Evans (Chief Secretary's Office) and to Rod Clark (Department of Social Security).

C. D. POWELL

S. Watts, Esq.,
Office of the Minister for Housing, Environment and
Countryside.



10 DOWNING STREET

LONDON SW1A 2AA

From the Private Secretary

19 December 1988

Dear Roger,

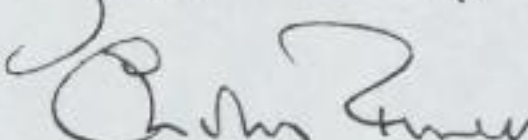
REVIEW OF HOUSING SUBSIDY FOLLOWING LARGE SCALE
DISPOSALS OF STOCK

The Prime Minister has now considered the Secretary of State for the Environment's minute of 24 November and attached memorandum dealing with the effect on housing subsidy when a local authority sells all or part of its housing stock.

The Prime Minister thinks that it would be simpler and preferable to pay a 100% subsidy on residual debt charges, although if all other colleagues prefer to go out to consultation on 90% with the 100% subsidy remaining a fall-back, she would be content to support this. She has also commented that the same rules should apply for sales under Right-To-Buy and tenants' choice: she believes that this will be cheaper in the long run.

The Prime Minister hopes that agreement can be reached on these points without the need for a meeting.

I am copying this letter to the Private Secretaries to members of E(LF), the Legal Secretary to the Attorney-General and to Sir Robin Butler.

Yours sincerely,

 (C. D. POWELL)

Roger Bright, Esq.,
 Department of the Environment.

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PRIME MINISTER

MEETING OF E(LF): 22 DECEMBER

You may like to take a first look over the weekend at the papers for next Thursday's meeting. There is only the one item on the agenda, which should not take too long to resolve. You will recall this is the issue where you thought it would be helpful to have a meeting rather than try to sort it out in correspondence.

Rec.

PAUL GRAY

16 December 1988

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PRIME MINISTER⁽

DISPOSAL OF COUNCIL HOUSING STOCKS

Lord Caithness's minute below (flag A) follows up your talk with Messrs. Ridley, Major and Moore about Torbay and related voting issues on council housing transfers.

On Torbay and other transfers of total housing stocks, DOE Ministers now propose to proceed on the basis of simple majorities. This does not require legislation or a formal announcement. But Torbay will be given a nod and a wink to hold a second ballot.

But on Tenants' Choice DOE propose to stick with the voting arrangements now enshrined in the 1988 Act. This means the requirement for a 50 per cent turn out for a ballot to be valid; but with Tenants' Choice proceeding unless there is a majority of tenants eligible to vote voting against. However, any individual tenant need not transfer if they vote "no". It is this last feature that distinguishes Tenants' Choice from both HATs and wholesale disposals.

Mr. Rifkind has also sent in a letter on the Torbay problem (flag B) - he was not of course involved in your recent meeting and has not seen Lord Caithness's minute. He proposes a different change in voting arrangements for Torbay cases - namely that only those who oppose a proposal would be invited to register a vote, and those who oppose a disposal would have to secure that over 50 per cent of the tenants registered ^{their opposition.} ~~would vote.~~ I have discussed this approach informally with DOE. I agree with them that it is not a sufficiently big change to meet the objective agreed at your meeting.

I gather from Mr. Moore that he is content with the Caithness proposal. The Chief Secretary has not yet commented, but I gather he is likely to be content with the proposal ~~of~~ ^{for} Torbay-type cases. He may, however, question whether we should not, in the light of that, now be reconsidering the

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Tenants' Choice voting arrangements. (I think it would be very difficult to make such a change so soon after Tenants' Choice arrangements had been enshrined in the 1988 Act; and I am persuaded by DOE argument that, because individual tenants are not forced to transfer, Tenants' Choice is different from the other types of housing transfer.)

Are you content:

- to agree the DOE proposals on Torbay-type cases? *Yes*

- to invite DOE to inform other colleagues (Messrs. Rifkind and Walker) of that solution, and to resist Mr. Rifkind's alternative? *Yes*

- to agree that the Tenants' Choice voting arrangements should remain unchanged? *Yes*

PACG.

PAUL GRAY

16 December 1988

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FROM: CHIEF SECRETARY
DATE: 15 December 1988

ce PW

cc l Wilson

PRIME MINISTER

HOUSING SUBSIDY ON RESIDUAL DEBT

I have seen Nick Ridley's minute to you of 24 November and his attached paper. I have also seen John Moore's letter of 30 November to Nick.

FILE WITH PC

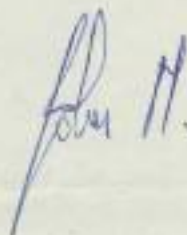
2 My concerns in this are four fold. Firstly, to ensure that the level of subsidy is set at a level that will not act as a disincentive to sales. We all wish to encourage these. Secondly, to strike a reasonable balance between the interests of charge payers and taxpayers so that local people are not entirely insulated for the past decisions of their representatives. Thirdly, to minimise unnecessary Exchequer costs. Fourthly, to achieve value for money with individual sales.

3 I am concerned that 100 per cent subsidy could put these concerns at risk. And by floating the possibility in a consultation paper we would increase the pressure on us to concede full subsidy once consultations are complete. In these circumstances would it not be better to aim to minimise any disincentive to sales by agreeing from the outset to propose the same 90 per cent subsidy rate for large scale voluntary disposals in England as we thought might be appropriate for Wales? We could take a firm decision once consultation is complete. It seems to me unlikely that the suggestion of a 90 per cent rate would be sufficient to dampen any of the interest which Authorities are showing.

4 In suggesting this I have in mind the fact that subsidy will be required only where sale prices are insufficient to cover outstanding debt. That may not generally be the case. In the case of those proposed sales where debt is not extinguished by receipts we shall have to balance the attractiveness of disposal against the public expenditure costs especially since the increase in housing benefit costs which will undoubtedly follow transfer will need to be added to the impact of any subsidy costs.

5 If colleagues agree that we should not suggest at this stage a rate of subsidy above 90 per cent, full subsidies could still remain a fallback after consultation if necessary. Perhaps on that basis we might not need to wait to discuss this at a meeting.

6 I am copying this minute to members of E(LF), the Attorney General and Sir Robin Butler.

A handwritten signature in blue ink, appearing to read 'John M.', is written in the right-hand margin of the document.

JOHN MAJOR

Housing Policy PPS



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P03309

PRIME MINISTER

HOUSING SUBSIDY FOLLOWING LARGE SCALE DISPOSALS OF STOCK RTB

[Minute of 24 November from the Secretary of State for the Environment]

DECISIONS

Mr Ridley's minute is concerned with the effect on housing subsidy when a local authority sells all or part of its housing stock. The main issue is what subsidy should be paid where the capital receipt from a sale is insufficient to redeem all the debt outstanding on the dwellings involved, and the local authority has been left with a residual debt-financing liability.

2. There are three main alternatives for large voluntary sales:

i. to pay a new Residual Debt Subsidy (RDS) at 75% of the remaining loan charges, as Mr Ridley originally proposed. Rate or community charge payers would be required to find the remaining 25%;

ii. to pay subsidy at 90% of the remaining loan charges, as Mr Ridley now appears to be suggesting, and as is proposed for Wales. This would leave local taxpayers to find 10%. The Chief Secretary has written in today in support of going out to consultation on the basis of this 90% option, with 100% subsidy remaining a fallback after consultation if necessary. He suggests that if you are content with this, the decision may not need to wait until E(LF) next week (in which case the meeting could be cancelled);

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1 agree - go out to consultation on 90% - but I think it would be preferable to go for the simpler 100%. I also think the same rules should apply to

of let's not choose. I think it would be changes in the large run. If everyone else agrees you need for a meeting

elast

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iii. to pay a 100% subsidy on residual debt charges, leaving no burden on local taxpayers. The simplest way to achieve that would be to leave the debt charges within the housing account, and allow the new financial regime to operate as intended. But it would be necessary to impose controls on sale prices to avoid abuse.

Whichever option you choose, you will want to decide whether it should also apply to other sales, eg under the Right-To-Buy and tenants' choice.

3. All the Ministers directly involved have now agreed to move as far as option (ii), a 90% subsidy, at least for large voluntary sales. The Chief Secretary is opposed to paying 100% subsidy because of the lack of incentives for authorities to obtain the best price. On the other hand option (iii) would be simple and straightforward, and would be consistent with the new system for housing accounts agreed in the summer. It would also remove any disincentive on authorities to sell their council housing. You will want to decide between option (ii) (90% subsidy) and option (iii) (100% subsidy within the new financial regime).

BACKGROUND

4. Mr Ridley's proposals have arisen from plans by some councils to dispose of their whole housing stock. Under the existing housing subsidy system, introduced in 1981, the results of such a disposal could be anomalous. Subsidy is based on authorities' historic entitlements, not on their current financial needs. Some authorities could therefore continue to receive subsidy after a disposal even when there was no remaining expenditure to support. Others could receive no subsidy even though the proceeds of sale were insufficient to pay off all the outstanding debt.

5. The position would be different under the new ring-fenced financial regime for housing which is to be introduced in 1990/91. Under that system, the Exchequer would meet any deficit on the account (subject to rules on what expenditure and income was accepted for subsidy). No subsidy would be paid if no expenditure were

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incurred after a disposal; and if any residual debt were left outstanding on the account, subsidy would meet the whole cost of financing it.

6. Mr Ridley's proposals, originally set out in his minute of 27 July, involved changing the rules of the existing subsidy system for its last year, 1989/90, to remove the anomalies. Where dwellings were sold the proceeds would have to be used to redeem the associated debt. If no debt were left outstanding subsidy would cease. But if there were outstanding debt, subsidy would be paid to meet 75% of the debt charges, leaving 25% to be met locally. This would apply to sales under the Right-To-Buy (RTB) and tenants' choice as well as voluntary disposals. But for transfers to Housing Action Trusts (HATs) alone Mr Ridley proposed a safety net grant to ensure that no residual costs fell locally: effectively a 100% subsidy.

7. Mr Ridley also wished these arrangements to apply under the new financial regime. But as noted above, the new subsidy system would not achieve the same effect. He therefore proposed a requirement that the debt charges on any residual debt left after a disposal be transferred to the authority's general fund. 75% of any debt charges would be met by a new Residual Debt Subsidy (RDS), leaving 25% to be financed by community charge payers.

MAIN ISSUES

Large scale voluntary sales

8. So far as large scale voluntary sales of stock are concerned, the decision is between a 90% and a 100% rate of subsidy. The main considerations appear to be:

- i. incentives to sell. A 90% subsidy would leave 10% of residual debt charges to be met locally. You will wish to consider whether this could act as a disincentive to some authorities selling their housing stock, particularly since they would get a 100% subsidy to cover their deficit if they retained the stock. If so, a 100% subsidy would avoid this disincentive;

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ii. incentives to get the best price. Treasury and DOE Ministers are concerned that a 100% subsidy would remove any incentive for authorities to get the best price. Direct controls on the sale price would therefore be necessary under this option (as they will be in other contexts under the new subsidy system, eg on the costs of new building). The papers argue that a 90% subsidy would remove the problems. However it is clear that DOE and Treasury would still need to take a very close interest in the financial implications, including the sale price, as in the recent exchange of correspondence over the disposals proposed by Torbay and Chiltern District Councils;

iii. complexity. A 90% subsidy would be an additional complication on the new housing finance system agreed in the summer. It would be simpler and more straightforward to let that system apply to stock sales directly, resulting in a 100% subsidy.

9. You will want to decide whether the balance of these arguments favours a 90% or 100% subsidy rate. The Chief Secretary suggests going out to consultation on the basis of a 90% subsidy, keeping a 100% subsidy as a fallback after consultation if necessary.

Other sales

10. For transfers to HATs, where the Government will be requiring a local authority to divest itself of a particular block of stock, Mr Ridley already proposes a 100% subsidy on any residual debt. E(LF) will probably want to endorse this proposal.

11. For other sales, including compulsory sales under Right-To-Buy (RTB) and tenants' choice, Mr Ridley and the Chief Secretary still propose a 75% subsidy on any residual debt associated with the dwellings in question. You may wish to consider whether this is right:

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Need

i. it is not easy to see how a less generous regime for compulsory sales can be defended when the Government proposes to pay a 90 or 100% subsidy for voluntary sales. Authorities would presumably be able to complete many sales on a voluntary basis simply to benefit from the higher subsidy rate then available, defeating the object of a 2-tier system;

ii. a 75% subsidy on compulsory sales would require complex arrangements to take these sales outside the new financial regime, even if E(LF) agreed to a 100% subsidy and much simpler treatment for large voluntary sales.

12. You may want to consider whether the same treatment you agree for large voluntary sales should also be applied to other sales, particularly those under RTB and tenants' choice.

TIMING

13. Provisions on the subsidy treatment of sales will need to be included in the Housing and Local Government Bill, which is due to be introduced in late January. You will therefore want to reach decisions at this meeting if at all possible, so that the main principles can be reflected in the Bill. Mr Ridley will wish to issue a consultation paper as soon as possible in January. Consultation will nevertheless still be open when the Bill is published. Any changes following consultation would need to be incorporated during Committee Stage, or in subsequent regulations (eg covering the details of the subsidy rates).

VIEWS OF OTHER MINISTERS

14. The Chief Secretary's views are set out in his minute of 15 December, and are reflected above. The Secretary of State for Wales has expressed concern that some Welsh authorities who are already interested in large scale stock sales will have residual debt. But he earlier accepted that a 90% subsidy would be sufficient to meet that concern. The subsidy system in Scotland is different, and the Secretary of State for Scotland does not propose to change it in response to Mr Ridley's proposals for England and Wales. The

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Secretary of State for Social Security has pointed out that a requirement on local authorities to meet a proportion of any residual debt charges locally could raise community charge levels, and increase the cost of community charge rebates. He therefore favoured including a 100% subsidy option in any consultation paper.

RJW.

R T J WILSON
Cabinet Office
15 December 1988

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S E C R E T A N D P E R S O N A L

PRIME MINISTER

DISPOSAL OF WHOLE COUNCIL HOUSE STOCKS

1. I have seen your Private Secretary's letter of 8 December which I discussed with Nicholas Ridley before he left for China. I am writing to seek agreement to what we now propose.

2. There are about twenty councils actively interested in voluntarily disposing of their stock and many others are considering it. I announced the first consent yesterday for Chiltern to transfer their stock of 4650 homes to Chiltern Hundreds Housing Association. This followed an overwhelming tenant vote in favour (84% of those voting on a 71% turnout).

Of the other proposed disposals where a vote has been completed:-

Sevenoaks - 85% in favour on a 80% turnout

Rochford - 92% against on an 87% turnout

Torbay - 74% against on a 59% turnout (43% of all tenants against, 41% abstained and 16% in favour).

Other interested councils have indicated that they may well only apply to the Secretary of State for a consent to sell if the majority of those voting vote yes. That is also the advice being given by the Electoral Reform Society. The message that

S E C R E T A N D P E R S O N A L

it is best to proceed on a simple majority basis will be reinforced in officials' contact with councils.

So, Torbay apart, no Government action is required at the moment - in the form of legislation or a formal announcement - to achieve our objective of ensuring that councils only sell their whole housing stock if there is substantial tenant support for the idea.

TORBAY

Torbay is a problem. I propose to write to the Council saying that we are minded to turn down their application for consent, and that we will formally do so unless they provide clearer evidence not only that a majority of their tenants do not oppose the sale but also that there is substantial support for it amongst tenants. It will then be for the council to decide whether or not to hold a second ballot; and, if they do, the Electoral Reform Society and others will advise them that their best chance of success lies in their voluntarily adopting the simple majority procedure.

TENANTS CHOICE

There are three voting systems enshrined in the Housing Acts:

Housing Action Trusts (HATS) (1988 Act) - simple majority of tenants voting (requirement in legislation);

Voluntary Disposals (1986 Act) - Secretary of State's discretion subject to no majority against of tenants eligible to vote (requirement in legislation). Now proposed simple majority (informally);

C


S E C R E T A N D P E R S O N A L

Tenants' Choice (1988 Act) - no majority against of tenants eligible to vote with no Secretary of State discretion (requirement in legislation):

The voting system for tenants' choice in the 1988 Act is therefore based on the same principles as for voluntary disposals. There will be pressure to amend it too. We must resist that pressure strongly for two reasons. First, under both HATs and voluntary disposals, tenants opposing the sale can be transferred against their wishes, whereas under Tenants Choice, tenants voting 'No' stay with the Council. Second, in Tenants Choice ballots we are imposing stringent requirements on the independent tellers to do everything possible to secure a response from all tenants.

I should be grateful for confirmation that you are content with this approach. I would then write to Torbay as soon as possible and let you know what they decide to do.

I am copying this minute to John Major and John Moore.


EARL OF CAITHNESS

14 December 1988

HOUSING Policies Pt 13





SCOTTISH OFFICE
WHITEHALL, LONDON SW1A 2AU

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

14 December 1988

Dear Nicholas,
**PRIVATISATION OF COUNCIL HOUSING: PROPOSALS FROM CHILTERN
AND TORBAY COUNCILS**

I was interested to see John Major's letter of ⁷ December replying to your own letter of ⁵ December. I have already commented on the Scottish interest in the decisions on these cases in my letter of 8 December; but there is one further comment I would like to make in the light of John's remarks about the Torbay ballot.

It does seem to me that the form of ballot adopted by Torbay presents peculiar political problems. Given that the overwhelming majority of those who voted cast their vote against the proposals, it really is very difficult to argue with any conviction that an overall majority of the tenants involved support the proposal; and I fear that if we argue that on the basis of the type of ballot adopted in Torbay, we shall simply not be believed and this, as John implies, may do damage to our ability to effect further largescale disposals of council housing stock.

Nevertheless, I appreciate your point that sheer apathy should not count against a proposal to dispose of housing stock. Since the purpose of the ballot, therefore, should be to establish whether, in terms of the legislation, a majority of the tenants affected oppose the proposal, I wonder if the form of ballot which we might recommend should be undertaken in the future in voluntary disposals cases should not simply invite only those who oppose the proposal to register any vote at all. It would therefore be quite clear from the outset that those who opposed a possible disposal would have to secure that over 50% of the tenants registered their opposition. It would also avoid the presentational disadvantage apparent in the Torbay case of having to call on those who did not vote to redress the perfectly obvious balance against the proposal among those who did.

I recognise that, in England, ballots will take place not only on voluntary disposals but also in Tenants' Choice transfers (where your arrangements are different) and where Housing Action Trusts are proposed. The type of ballot I am suggesting might not be appropriate for HATs, but the 1988 Act already treats the various types of disposal differently and I do not think it would be unreasonable to introduce this further variation.

HSB348F8

Whatever view you take, I hope that there will be no objection to my recommending ballots of the type above in voluntary disposals cases in Scotland.

I am copying this letter to the Prime Minister, John Moore, John Major and Peter Walker and to Sir Robin Butler.

MALCOLM RIFKIND

HOUSING : Policy 2013.

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*Cite SKW
aBS*

10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

14 December 1988

Dear Roger,

**HOUSING MOBILITY:
POWERS TO FUND NATIONAL SCHEMES**

The Prime Minister was grateful for your Secretary of State's minute of 9 December. Subject to the views of colleagues, she is content to include a suitable clause in the Local Government and Housing Bill to amend the existing powers to fund mobility schemes on the basis proposed.

I am copying this letter to the Private Secretaries to members of E(LF), Alison Smith (Lord President's Office) and Trevor Woolley (Cabinet Office).

*Yours,
Paul*

(PAUL GRAY)

Roger Bright, Esq.,
Department of the Environment.

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abg

10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

14 December 1988

Dear Roger,

HOME OWNERSHIP FOR TENANTS OF
REGISTERED HOUSING ASSOCIATIONS

The Prime Minister was grateful for your Secretary of State's minute of 9 December. Subject to the views of colleagues she is content with the terms of the proposed announcement.

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

*Yr,
P.G.*

(PAUL GRAY)

Roger Bright, Esq.,
Department of the Environment.

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ccm



SCOTTISH OFFICE
WHITEHALL, LONDON SW1A 2AU

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

NBRM

PRG

3/12

13 December 1988

Dear Nicholas,

HOME OWNERSHIP FOR TENANTS OF REGISTERED HOUSING ASSOCIATIONS
(HOTCHA)

with PG?

Thank you for copying to me your letter of 9 December to the Prime Minister.

I am content with your proposed course of action and welcome your confirmation that my Department will be kept informed of developments.

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

*Yours ever,
Malcolm Rifkind*

MALCOLM RIFKIND

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DMW347F7



PRIME MINISTER

Yes

*Prime Minister^{CCAJ}
Content, subject to views of
colleagues, with the terms of
the announcement and
consultation paper?*

HOME OWNERSHIP FOR TENANTS OF REGISTERED HOUSING ASSOCIATIONS

*PRCC
13/12*

I minuted you on 14 October proposing that the Home Ownership Scheme for Tenants of Charitable Housing Associations (HOTCHA) should be wound up in favour of a cash incentive scheme, under which associations would at their discretion offer payments to help their tenants buy homes in the private sector. This was agreed in principle (Paul Gray's letter of 31 October). I now seek the agreement of colleagues to the terms of the announcement.

A draft Parliamentary answer, which might form part of the announcement of the Housing Corporation's approved development programme for next year, is attached, together with the text of the consultation paper which the Corporation propose to issue at the same time inviting views on a new scheme for introduction in 1990/91. The funds available in the coming year will be used to deal with HOTCHA applications in the pipeline.

Colleagues raised a number of points. The Secretary of State for Employment's letter of 20 October suggested that priority should be given to schemes which help to house people moving into an area to take up jobs. It would be difficult in practice to say that schemes were designed to produce vacancies for reletting for a particular purpose; but the vacancies would be used according to the association's normal priorities, which might indeed have regard to the needs of newcomers taking up employment.

The Secretary of State for Wales proposed in his letter of 25 October that assistance under the new scheme should be given in the form of interest-free index-linked loans repayable on sale, rather than grants. The consultation paper leaves open the form which assistance would take, and I agree that this question should be explored further before the details of the scheme are settled.

*you
asked
for this
variant
to be
considered*

PRCC



The letter of 25 October from the Secretary of State for Social Security drew attention to possible effects on income support and housing benefit expenditure as a result of tenants becoming home owners and being replaced by new tenants. The changes to which he refers will indeed take place before the proposed new scheme is introduced, and DSS officials may wish to keep in touch with mine.

The Chief Secretary's letter of 25 October commented on resources. Provision for residual expenditure on HOTCHA and for the new scheme will be included in the Housing Corporation's approved programme for the next three years. I agree that our officials should discuss arrangements for ensuring value for money.

Finally, the Secretary of State for Scotland's letter of 3 November expressed interest in the possibility of Scottish Homes introducing a similar scheme. I shall of course see that his Department is kept informed of developments.

I hope to make the announcement on 14 December, and would therefore be grateful for the agreement of colleagues by 13 December. Copies of this minute go to members of E(LF) and to Sir Robin Butler.

A handwritten signature in dark ink, consisting of the letters "N.R." in a stylized, cursive script.

NR

9 December 1988

CONFIDENTIAL

ABOLITION OF HOTCHA: DRAFT ANNOUNCEMENT, AS PART OF THE ANNOUNCEMENT OF THE HOUSING CORPORATION'S APPROVED DEVELOPMENT PROGRAMME

The programme allocates £39m for the Home Ownership Scheme for Tenants of Charitable Housing Associations, under which portable discounts are paid to people who do not have the right to buy their present homes but wish to buy on the open market. There are currently some 3,250 tenants who have applied but are having to wait. They will all be able to proceed by 31 March 1990.

The scheme has helped nearly 6,000 households into home ownership, and released their old homes for reletting, but demand has outpaced the resources available. The rules of the scheme, under which payments are related to right-to-buy discount, are not apt to help as many tenants as possible to buy homes of their own. The scheme is therefore to be superseded by one which will enable resources to be used more efficiently, and no further applications will be accepted under the present scheme.

The Housing Corporation is today publishing a consultation document seeking views on proposals for a new scheme to be introduced in 1990/91. The proposals are modelled on the powers in section 129 of the Housing Act 1988 for local authorities to offer financial assistance to tenants to obtain new homes. The forward programme provides substantial funds for the new scheme. It will not be specifically aimed at tenants who do not have the right to buy, but the Housing Corporation envisages that in allocating resources some preference would initially be given to charitable housing associations whose tenants would have qualified for assistance under the present scheme.

TENANTS' INCENTIVE SCHEME : DRAFT 2.12.88

A CONSULTATION PAPER BY THE HOUSING CORPORATION

INTRODUCTION

1. The Minister for Housing, ^{Environment and Countryside} ~~and Construction~~ in his announcement today (? December 1988) noted that no further applications from tenants under the Home Ownership for Tenants of Charitable Housing Associations (HOTCHA) scheme (RC1 stage) would be accepted but that commitments to those applicants already in the HOTCHA pipeline would be honoured. Funds for this have been made available in the Housing Corporation's Approved Development Programme for 1989/90. Consequently, HOTCHA applicants must have gained approval under that scheme (RC3 stage) by 31st March 1990 if they are to benefit.
2. The Tenants' Incentive Scheme (TIS) is proposed as an alternative system of cash payments to enable tenants of all registered housing associations, including those previously within the scope of the HOTCHA scheme, to purchase a property on the open market on condition that they offer vacant possession of their original property in return. The scheme will therefore help release much needed housing association property for re-letting to those in acute housing need, including the homeless.
3. In order to encourage the new scheme, the Housing Corporation proposes to make housing association grant (HAG) available. These public funds will be the subject of bids by registered housing associations from late 1989.

THE SCHEME'S PURPOSE

4. The aims of TIS are twofold:

(i) It widens opportunities for home ownership using simplified and more streamlined procedures.

(ii) It will enable much needed housing for rent to be made available for re-letting.

5. An important objective of Government housing policy is to widen opportunities for home ownership as far as possible. However related procedures in the housing association sector are unduly complicated for both tenants and landlords. The Right to Buy applies only to tenants of non-charitable associations which have received HAG. Under the HOTCHA scheme, only tenants of charitable associations can participate and then only if they are living in properties which have received HAG. Similarly, there are restrictions on the availability of HOTCHA or the Right to Buy for those living in property suitable for certain special needs groups. The provisions contained in the Housing Act 1988 also mean that new assured tenants of housing associations will not enjoy the Right to Buy.

6. Whilst the proposed new scheme will be available at the discretion of associations, in principle it will be open to any association with funding to pay a cash incentive to any of its tenants to assist them into home ownership and to create a vacancy for re-letting. As well as simplifying procedural rules, TIS also offers opportunities for quicker processing of

applications in comparison to the HOTCHA scheme, where cash limits on a widely applicable scheme have led to significant delays for those who are eligible and who have wished to pursue their claim.

7. HOTCHA, and cash incentive schemes operated to date by local housing authorities, have allowed much needed homes for rent to be made available for re-letting to those in housing need. TIS is proposed as a cash incentive scheme which, unlike HOTCHA, associations will be able to target on households living in properties required by those in the most acute need. TIS will therefore parallel the powers being made available more generally to local authorities under the Housing Act 1988. It is not intended to restrict housing associations to letting property vacated through TIS to any specific category of housing applicant or nominee, such as the homeless. By using transfers, TIS may allow a better fit of houses and households within an associations stock and also homeless households to be housed.

SCHEME FRAMEWORK

8. Cash incentives will be payable to tenants to assist their purchase of a property elsewhere on the open market and hence to give vacant possession of their present housing association property. In this way property will be made available for re-letting to those in acute housing need sooner than would otherwise be the case. Associations will be able to bid for HAG in support of this scheme from the Housing Corporation.

It is not proposed that the cash payments made will be subject to any clawback if recipients sell their purchased property.

9. In preparing a local scheme, associations will have to:

- (i) Review their stock and the demands on it. This is likely to involve a direct assessment of the rates at which different parts of their stock become vacant and the housing requirements, in terms of property size, location, amenities and rent, of those the association seeks to house. This review is also likely to include close consultation with local housing authorities and others on local housing supply and demand and any comparable experience with similar incentive schemes.

- (ii) Assess target tenants' circumstances. This is likely to include research into tenants' interest in purchasing a property on the open market, the price and availability of such properties, and the extent to which such tenants may need support through TIS. As with the powers now being made available local authorities under the Housing Act 1988 for similar schemes, TIS will allow housing associations to develop incentive schemes confined to households living in a specific type or location of dwelling. As significant funds may be available to individual households under the scheme, associations will have to ensure that eligibility restrictions withstand the most robust scrutiny in terms of impartiality and fairness.

(iii) Consider arrangements for implementing the scheme following a successful bid for funds to the Housing Corporation. This will include arrangements for publicity to tenants and for receiving and processing applications for incentive payments from tenants. It may be that even by restricting the types of property and households which are the subject of a TIS bid, the allocation made by the Corporation does not immediately meet all eligible demand. Associations will therefore also have to give consideration to fair arrangements for queuing for example by date of application or type of property to be released.

(iv) Consider monitoring arrangements for the scheme. This is likely to include the comparison of re-let rates before and after the introduction of TIS. Monitoring is also likely to include an analysis of the take-up of any TIS allocation, the household characteristics of those who participate, where they move to, what purchase price is paid, and the cash incentive as a proportion of this.

10. If the market for TIS can be identified and associations are clear how they would monitor its implementation, associations will be invited to bid to the Housing Corporation for funds in support of their proposals. Any bid will have to include details of an associations considerations under paragraph 8 (above) and specifically the:

- size, type, and location of the association's property being targeted.
- number of households being targeted and level of incentive payments proposed.

- cash total of incentive payments proposed, and amount of HAG being sought.

11. In assessing bids for TIS from associations, the Housing Corporation will have regard to the proposed scheme's value for money, local housing needs, and its Regional Strategy for housing investment.

SCHEME INTRODUCTION

12. Associations will be invited to bid for local TIS in tandem with other bids for HAG in late 1989 for schemes relating to financial year 1990/91.

CONSULTATION

13. Registered housing associations (both charitable and non-charitable), local housing authorities and other interested parties are invited to comment on these proposals. In particular, views are sought on the demand for cash incentives, the levels of incentives required by different households and in different regions, the total level of funds required by individual associations.

14. Views on these, and other aspects of the proposed scheme are requested in writing to :

Equity Section
Operations Division
The Housing Corporation
149 Tottenham Court Road
London W1P 0BN

by 6th March 1989. This consultation paper has been distributed to the organisations listed below but further copies of this paper can be obtained from the above address.

2nd December 1988



ccfb

PRIVY COUNCIL OFFICE
WHITEHALL, LONDON SW1A 2AT

9 December 1988

MBM

ALC

12/12

Dear Peter

**HOUSING AND LOCAL GOVERNMENT BILL:
LOCAL AUTHORITIES' TITLES IN WELSH**

Thank you for your letter of ~~17~~^{11/10} October in which you sought H Committee's agreement to your proposals for enabling Welsh local authorities to choose that their statutory title should be in Welsh rather than English.

Nicholas Ridley suggested that it might be better to enable Welsh authorities to opt for a Welsh name in addition to their existing English name, each of which would have equal validity. You, Nicholas and I met to discuss your proposals on Thursday, 8 December, when you explained that, while you would expect only a couple of Welsh authorities to opt to change their name if this was on the basis that they would then be able to use only their Welsh name, many Welsh authorities would come under pressure to adopt a Welsh version of their name if they were able to retain also the English version. The latter course might, therefore, exacerbate the sort of confusion about which Nicholas expressed concern in his letter. In the light of that consideration, and recognising the strong political arguments for moving in the direction you proposed, Nicholas indicated that he was now content to agree to your proposal in the form you had put it forward. No other colleague has commented, and you may take it, therefore, that you have H Committee's policy agreement that Welsh local authorities should be enabled to opt to switch to the Welsh version of their corporate title. Nicholas indicated at our meeting that he would be content for a provision along these lines to be incorporated in his Housing and Local Government Bill.

I am copying this letter to the Prime Minister, colleagues on H Committee, Sir Robin Butler and First Parliamentary Counsel.

JOHN WAKEHAM

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

HOUSING: Bldg #13





PRIME MINISTER

Price Minister ✓
 The Land President has no
 comments. Contact?

HOUSING MOBILITY: POWERS TO FUND NATIONAL SCHEMES

Yeast
 RRCG
 13/12

I am writing to seek agreement to introduce a clause in the forthcoming Local Government and Housing Bill to regularise the powers enabling Government funding of housing mobility schemes. This is essentially a consequential measure, following this year's housing enactments, and has been agreed in principle by H.

As colleagues in E(LF) will know from discussion of my homelessness proposals, there are three publicly funded schemes which enable tenants to move between different parts of the country or to exchange tenancies. They are the National Mobility Office (NMO), the London Area Mobility Scheme (LAMS) and the Housing Association Liaison Project (HALO).

The NMO and LAMS receive direct Exchequer support, while HALO receives some support from the Housing Corporation, (DOE provides the major share of grant to NMO with territorial departments also contributing pro rata.) Local authorities' and housing associations' costs form a very small part of their day to day housing management expenditure. Existing powers to provide Government funding are contained in s107 of the Housing Act 1985 and s80 of the Housing (Scotland) Act 1987. Unfortunately these only relate to secure tenants - ie existing local authority or housing association tenants. In practice there has always been a number of moves that have involved non-secure tenants, for whom the absence of proper statutory backing has caused little concern.

Now, however, with the introduction of assured tenancies in the recent housing legislation the position needs to be regularised. I have agreed with the Scottish Office that the existing powers in both the Housing Act 1985 and the Housing (Scotland) Act 1987 should be amended by way of a clause in the Local Government Housing Bill to allow funding of mobility and exchange.



arrangements involving households from all sectors. The vast majority of moves will still be between and into the subsidised sector and there is no intention that we should fund any arrangement which would more appropriately be a self-supporting, commercial operation in the private sector. The new provision would merely be an enabling power and would not prescribe the type or extent of funding. Approval for funding would rest with the relevant Secretary of State.

Public Expenditure and Manpower Implications

The new power will not increase manpower or expenditure in the short term. Encouraging mobility is an important means to making best use of the stock, releasing under-occupied property and providing a means to help house mobile homeless households and those with no obvious local connection. As part of my reworked package of proposals on homelessness I will be proposing the amalgamation of the three mobility bodies. These amendments are necessary to provide the statutory base for funding the administrative costs of any such integrated mobility scheme.

I should be grateful for colleagues' approval to the inclusion of a suitable clause in the Local Government and Housing Bill to amend, in the terms suggested, the existing powers to fund mobility schemes.

I am copying this letter to colleagues in E(LF), the Lord President and to Sir Robin Butler.

NR

9 December 1988



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SCOTTISH OFFICE
WHITEHALL, LONDON SW1A 2AL

CONFIDENTIAL

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

Price Mark
fccc
AIC

8 December 1988

Dear Nicholas,

HOUSING AND LOCAL GOVERNMENT BILL: SCOTTISH PROVISIONS

I have seen copies of your exchanges over the last couple of months with John Wakeham about the contents of the Housing and Local Government Bill, which I understand is scheduled for introduction towards the end of January.

It is already agreed that the Bill will contain provisions which apply to Scotland on housing (the abolition of the home loans scheme) and on local government (implementation of certain Widdicombe proposals) and I see no problem in completing the drafting of the relevant material in good time. I note that you will be using the Bill to make certain relatively technical changes in community charge and rating legislation comprising points which were left over from the Local Government Finance Act 1988 or which correct minor deficiencies and make minor improvements in the community charge and rating systems. I understand that, so far, only one of these technical changes is of GB-wide applicability, relating to community charge exemption for the employees of international organisations.

Against this background I hope that you and other colleagues would agree to include in the Bill a number of fairly technical corrections and improvements which we have identified to the community charge and rating systems for Scotland. I attach a list of the provisions I have in mind. As you will see, the firm candidates we can identify at the moment include the rectification of a small but embarrassing error on the community charge liability for people such as resident hotel proprietors and staff, together with one or two matters where it is desirable to come into line with the position south of the Border.


But my main reason for wanting to have Scottish community charge and rating provisions in the Bill is the possibility that, in the first half of next year, I may wish to bring forward provisions enabling me to start the process of moving non-domestic rate poundages in Scotland towards the level of the English UBR, on which I will shortly be circulating proposals in a paper for E(LF) as you suggested I should earlier this year. I do not think that the necessary provisions would be complex or indeed controversial: I would expect them to be warmly welcomed on all sides, in both Houses. As you will see from my list, there are two other

contingent matters, namely possible improvements in the timetable for the handling of valuation appeals and possible changes in civil penalties, where I may wish to introduce a greater degree of flexibility similar to what Registration Officers will have south of the Border, once the initial, and most contentious phase of establishment of the system in Scotland is past.

Subject to your agreement and that of colleagues, I would envisage proceeding very much as we did last year on the Local Government Finance Bill, incorporating in the Bill as presented only the minimum necessary Scottish provisions to establish scope for the matters I may wish to bring forward later, and choosing those provisions from my list which would be welcome, or at least uncontentious, and which so far as possible parallel provisions you are making or have already made south of the Border. These tactics worked well last Session even though the need to keep up with changes and developments in your provisions meant that we ended up with quite a lot of Scottish amendments at the end of the day. I am reasonably confident that, with the much more limited changes to both systems which we envisage this time round it should similarly be possible to handle the Scottish material in a way which avoids extensive discussion - particularly at the Committee Stage where I would not envisage the presence of a Scottish Office Minister being necessary.

I appreciate John Wakeham's general concerns about the size and scope of the Bill but I do not think that what I am proposing would significantly lengthen the Bill on introduction or slow up its Parliamentary progress.

I am copying this letter to the Prime Minister and members of E(LF) seeking agreement to the proposed legislative provisions listed in the Annex to this letter, apart from the question of business rates which will be subject to separate discussion in that Committee; to the Lord President and members of L Committee, seeking agreement to handling these matters in the Housing and Local Government Bill on the basis I have proposed; to David Waddington and to Sir Robin Butler.



MALCOLM RIFKIND

COMMUNITY CHARGE AND RATING SYSTEMS: PROPOSALS FOR LEGISLATION 1988-89

1. Highly desirable provisions1.1 Persons resident in premises subject to non-domestic rates

Paragraph 12 of Schedule 1A to the Abolition of Domestic Rates Etc (Scotland) Act 1987 provides for the exemption from the community charge of those whose sole or main residence is in premises which continue to be subject to rates. The Schedule was inserted by amendment made in the Local Government Finance Act 1988, and paragraph 12 failed properly to replicate the original provisions of the 1987 Act. The exemption should not be available to those living in 'part-residential' subjects where the rateable value is to be apportioned so that rates are not payable on the element attributable to the use of the premises as a sole or main residence, and where those who are solely or mainly resident there should pay the community charge. The main categories affected are resident proprietors, staff and permanently resident guests of hotels, boarding houses and pubs, as well as resident staff in residential schools. An amendment is necessary to insert the words originally contained in the 1987 Act but omitted from the 1988 Act amendment.

1.2 Parts of community charge register available for public inspection - use of initials

Public inspection of the community charges register in Scotland is limited to a list of names and addresses (and in the case of certain collective community charge premises, the multiplier). The information which can be inspected is technically a part of each register entry, and this means that if the full entry shows an individual's full name, so will the list of names available for inspection. Concern has been expressed that the appearance of full names in this way might enable the identification of certain vulnerable individuals, such as women living alone. The draft regulations establishing the community charges register in England and Wales propose that the public extract should contain initials only. To achieve this in Scotland requires an amendment to primary legislation.

1.3 Universities - charitable relief from rates

At present 50% mandatory relief from rates is provided for charitable organisations under the Local Government Financial Provisions Etc (Scotland) Act 1962. By amendment made in the Local Government Finance Act 1988 the level of mandatory relief will rise to 80% on 1 April 1990, matching similar changes south of the Border. The rate relief provisions in the Local Government Finance Act 1988 did not replicate the earlier exclusion of universities from the charitable concession, because of problems about possible hybridity of the Bill. This means that universities and colleges in England and Wales will benefit from 80% relief as from 1 April 1990. It seems desirable to make similar provision in Scotland, by amendment to the 1962 Act.

1.4 Aggregate Exchequer Grant

Changes in public expenditure planning, with the introduction of the 'new planning total' mean that the concept of 'Aggregate Exchequer Grant' as contained in Schedule 4 of the Abolition of Domestic Rates Etc (Scotland) Act 1987 will be no longer relevant with effect from the 1990-91 settlement. The concept has already been deleted from English legislation in the Local Government Finance Act 1988, and it is highly desirable to bring Scottish legislation into line.

1.5 Prescription of principles of valuation

The power to prescribe principles of valuation available to the Secretary of State for the Environment is not considered sufficiently wide to enable different decapitalisation rates to be prescribed for different types of occupier. Scottish power is expressed in different terms, but if DOE make an amendment, a comparable change for Scotland would be required.

2. Matters where the need for legislation may emerge during 1989

2.1 Moves to a common rate poundage

In order to begin moves towards a common rate poundage in Scotland, based on the level south of the Border, it will be necessary to amend the present provisions of the Abolition of Domestic Rates Etc (Scotland) Act 1987 which leave local authorities free to determine their non-domestic rate poundages subject to ceilings prescribed annually by the Secretary of State. Instead the Secretary of State might prescribe directly the poundages charged by individual local authorities. Phasing-in would have to cover both lower rate poundages and the effects of 1990 revaluation (for those facing large relative changes in rateable value). Options for doing this are being worked out, and there could be implications for the pooling of non-domestic rate income and for the distribution of revenue support grant. Depending on Ministers' decisions on this subject it could be necessary to introduce amendments on these lines in the first half of 1989.

2.2 Valuation appeal procedures

The present arrangements are plainly unsatisfactory, with a large number of non-domestic appeals still outstanding three and a half years after the last revaluation. A review has begun of the operation of the system in the light of experience since 1985, and in particular of the new role which was given to the Lands Tribunal for Scotland at that stage. The Scottish Valuation Advisory Council, chaired by Lord Clyde, will consider this at its March meeting and in the light of its recommendations some legislative change may be needed. If new procedures were to have effect in time for the 1990 Revaluation they would need to be introduced in the 1988-89 Session.

2.3 Community charge civil penalties

The Lord Advocate has been invited to consider the adequacy of the present provisions relating to civil penalties, and in particular whether the Registration Officer has power to revoke penalties once imposed, in particular in the light of new information which may

suggest that an individual had a reasonable excuse. If deficiencies are identified it would be undesirable for amendments to be made at the present time, when the community charge registration process and appeals associated with it are still contentious. Amendments might, however, more appropriately be brought forward during the later stages of the Bill (ie some time after 1 April 1989).

3. Possible minor amendments to the Abolition of Domestic Rates Etc (Scotland) Act 1987

3.1 Section 13(1) - Joint owners

Section 13(1) of the 1987 Act (as amended by the 1988 Act) provides that the community charges register must specify "the name of every person liable to pay any of the community charges in the registration area". In the case of joint owners of standard charge premises therefore the Act requires that the register show the name and address etc of all such owners. Registration officers have indicated however that they have been proceeding on the assumption that it will be sufficient to record one name and address only and to indicate the existence of other joint owners etc by inserting alongside the one name recorded the words "and others". The Registration Officers' computer systems do not have the capacity to hold the names and addresses of all persons who are jointly and severally liable for the standard and collective community charges and that they are therefore unable to comply with the letter of the statute. An amendment is needed to reconcile the apparent conflict between what is required and what is possible.

3.2 Section 18A

Although it is intended that Registration Officers should use the powers conferred by section 18A of the 1987 Act (as inserted by the 1988 Act) to seek information from individuals about themselves, it has been pointed out that, as drafted, the provision would allow Registration Officers to seek information about people from their neighbours. It is undesirable that this possibility should exist and an amendment is required.

3.3 Section 20(5) - Inspection of Extracts from the register

Section 20(4) of the 1987 Act (as substituted by the 1988 Act) empowers the Secretary of State to make regulations requiring Registration Officers to make extracts of the register; and section 20(5) provides that such regulations may prescribe that the extract shall be made available for inspection by the regional or islands council. Although there is an implied duty on Registration Officers to hand the extract over to the regional or islands council, there is no explicit provision in the Act - nor an explicit power to include such provision in regulations - requiring them to do so. Moreover, the Registration Officers have expressed the view that responsibility for making the extract available for inspection should rest with them rather than with the regional and islands councils.

3.4 Section 20A - Anonymous Registration

New section 20A of the 1987 Act (as inserted by the 1988 Act) provides for the exclusion from the public part of the register of

entries relating to persons who are at risk of physical violence. Unlike the anonymous registration system being introduced in England and Wales, however, it does not provide for the exclusion from the register of entries relating to people other than those actually at risk of violence, if their inclusion might give away the whereabouts of the latter. For example, while it provides for the exclusion of the entry relating to the battered wife it does not provide for the exclusion of the entry relating to her 18 year old son who is living with her.



KAYANC

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10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

8 December 1988

Dear Roger,

PRIVATISATION OF COUNCIL HOUSING

The Prime Minister held a short meeting this morning with your Secretary of State, the Secretary of State for Social Security and the Chief Secretary to discuss your Secretary of State's letter of 5 December to the Chief Secretary.

I should be grateful if you and other recipients of this letter would ensure that no further copies are made and that it is shown only to those with a strict need to know.

Summing up the discussion the Prime Minister said that the meeting noted that your Secretary of State would consider the possibility of inviting Torbay Council to conduct a new ballot in the light of the present confusion about the tenants' wishes. He would also consider more generally the future handling of balloting arrangements under both tenants' choice and multiple transfer proposals. This consideration would need to take into account further advice on the legislative position.

I am sending copies of this letter to Stuart Lord (Department of Social Security) and to Carys Evans (Chief Secretary's Office, Treasury).

Yours,
Paul

(PAUL GRAY)

Roger Bright, Esq.,
Department of the Environment.



ccPfe.
SCOTTISH OFFICE
WHITEHALL LONDON SW1A 2AT

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

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8 December 1988

Dear Nicholas,

PRIVATISATION OF COUNCIL HOUSING
PROPOSALS FOR CHILTERN AND TORBAY COUNCILS

Thank you for copying to me your letter of 5 December to John Major. *attached*

Although the Housing Act 1988 extended similar large scale disposal arrangements to Scotland, no Scottish authority is as yet contemplating selling off all of its stock to the private sector. The precedent which Chiltern and, particularly, Torbay will set will, however, be relevant here as and when local authorities seek to diversify ownership in this way, and I will be extremely interested to follow your decision here and its repercussions. On the basis of past experience - both north and south of the border - of the willingness of parties affected to challenge decisions by central government, you will I imagine be anticipating your decision in Torbay being raised in the Courts.

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

MALCOLM RIFKIND

CONFIDENTIAL

CGPO


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 1/12

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

 7th. December 1988

Dear Nick,

**PRIVATISATION OF COUNCIL HOUSING:
 PROPOSALS FROM CHILTERN AND TORBAY COUNCILS**

Your letter of 5 December, on which John Moore has commented in his letter of 7 December, deals with an extremely delicate set of issues.

You will, I know, understand if I say that I would greatly have appreciated, and would greatly appreciate now, more time to ponder these issues, without the prospect of a dawn firing squad. I cannot believe that such haste is either necessary or conducive to good decisions.

Your letter implies at several points that the Government would be guilty of deception if we turned down the proposals now before us. With great respect, I cannot share that view. The guidelines for wholesale disposals which we agreed last June clearly state that: 'in all sales, the 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 takes place' It must surely therefore be open to us to refuse consent to such sales on the grounds of protecting the taxpayer from additional housing benefit burdens which we do not think can be justified.

On the substance, I quite understand and share your desire to get the wholesale disposals policy off to a good start. We do however, in accordance with the agreed guidelines, have to take account of the public expenditure implications, not least the implications for housing benefit.

CONFIDENTIAL

In the case of Chiltern, I think that these, though less favourable than I would wish to see on future occasions, are acceptable. If you think it right to go ahead with Chiltern, I would not wish to stand in your way.

In the case of Torbay, the housing benefit implications are a source of considerable concern and need to be weighed carefully. The position has of course been complicated, in prospect, by the new housing revenue account provisions. I think it essential that evaluation by DSS officials of the housing benefit implications, about which John Moore has rightly expressed concern in his letter, be completed before any firm decision is reached.

There are, moreover, wider considerations on Torbay, relating to the ballot and the wishes of the tenants concerned, which need in my view to be weighed in the balance before a final view is reached. I am well aware, of course, that these are matters for your political judgement. As your letter acknowledges, however, the Government cannot give consent to wholesale disposal proposals if you believe that a majority of the tenants affected oppose the proposal. Given the overwhelming majority vote against the proposals among those who voted in the ballot, I am not sure what evidence we have for supposing that the vote was misleading and that the reality is that an overall majority of the tenants support the proposal. We also need to consider the extent to which approval of Torbay, by highlighting concerns (shared by many of our own supporters) about the treatment of tenants' views, could encourage opposition to future sales and deter local authorities from bringing forward a continuing flow of disposals. I have no doubt that you will be weighting these factors, and the risk of challenge, carefully.

Given this combination of anxieties, I do urge that we allocate more time for reflection on the Torbay proposals and for completing the analysis of housing benefit figures. Because of commitments at Epping, I regret I cannot manage a meeting tomorrow; but in your absence in China one of your colleagues at DOE will doubtless be able to complete the unfinished business next week.

Whatever the decision may be on Torbay, I do suggest that in future we must allow ourselves more time and ensure that the public expenditure and other implications have been fully analysed and thought through before we take decisions.

I am copying this letter to the Prime Minister, John Moore, Malcolm Rifkind and Peter Walker and to Sir Robin Butler.

John Major

JOHN MAJOR



DEPARTMENT OF HEALTH AND SOCIAL SECURITY

Richmond House, 79 Whitehall, London SW1A 2NS

Telephone 01-210 3000

From the Secretary of State for Social ~~Security~~ Security

CONFIDENTIAL

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

7 December 1988

NR
21/12
8/12
Don Ridley

PRIVATISATION OF COUNCIL HOUSING - PROPOSALS FROM CHILTERN AND TORBAY COUNCILS

Thank you for letting me see a copy of your letter of 5 December to John Major. *with R?*

I am inclined to support your view that the two councils concerned should receive the go-ahead. To do otherwise would tend to undermine the decision to encourage such sales, particularly as these are the first we have had to consider.

It is, however, essential that in cases such as this we are given time for a proper consideration of the overall public expenditure implications and of the impact on housing benefit expenditure given the development of the new financial regime. In this case you estimate that there will be a net savings to the Exchequer until well into the next century. But the position for housing benefit is very different. Housing benefit costs are increased from as early as year two in the case of Torbay and from year four for Chiltern Council. I realise that these are based on your worst assumptions but even in the best circumstances the increase for Torbay alone is delayed and then only by a year.

I am concerned about the likely level of rents used in the calculations both anticipated by the councils and by the buyers. Although a great deal more work needs to be done on the figure

E.R.

work - we only received much of the data a day or so ago - your worst scenario might be the most likely one in practice. In estimating our costs in the PES we have taken account of your Department's assumptions regarding the level of rents. If the increases planned by Torbay are in any way typical, then no doubt you would need to review your forecast of the level of real increase over the next 2/3 years. If this were the case, even if the councils' estimates were correct, there could be a public expenditure impact not covered in your paper.

Our officials are examining the accounting arrangements to be adopted under the new financial regime. As is clearly stated in the papers appended to your letter, had it not been for the sale, the need for housing benefit would have fallen for each council under the proposals to ring-fence the HRA. If it is decided to proceed with the sales and if, as we all suspect, many councils soon follow suit, we should consider the impact this would have on our mutual accounting arrangements. I would not wish to bid for increasing housing benefit expenditure without due recognition that the rise was outside the control of my Department. Moreover, we should not lose sight of the fact that we are all agreed that whenever possible housing benefit expenditure should be reduced.

All this serves to underline my conviction that there is a strong case for the transfer of the responsibility for housing benefit policy and expenditure to your Department.

I am copying this letter to the Prime Minister, John Major, Malcolm Rifkind, Peter Walker and to Sir Robin Butler.

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

JOHN MOORE



DEPARTMENT OF HEALTH AND SOCIAL SECURITY

Richmond House, 79 Whitehall, London SW1A 2NS

Telephone 01-210 3000

From the Secretary of State for Social ~~Security~~ Security

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CONFIDENTIAL

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

7 December 1988

N Ridley

PRIVATISATION OF COUNCIL HOUSING - PROPOSALS FROM CHILTERN AND TORBAY COUNCILS

with request if required

Thank you for letting me see a copy of your letter of 5 December to John Major.

I am inclined to support your view that the two councils concerned should receive the go-ahead. To do otherwise would tend to undermine the decision to encourage such sales, particularly as these are the first we have had to consider.

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E.R.

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

JOHN MOORE

Cops



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

Prime Minister

2 MARSHAM STREET
LONDON SW1P 3EB
01-212 3434

My ref:

Your ref:

The Treasury point about possible public expenditure costs is highly academic and a red herring. Cashed hat Mr. Ridley should proceed to appraise the Chiltern and Torbay proposals if he is satisfied with the terms.

5 December 1988

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6/12

May we have
a word about
Torbay when I
return on Wed

700 2,200
1:3

Dear Chief Secretary,

**PRIVATISATION OF COUNCIL HOUSING
PROPOSALS FROM CHILTERN AND TORBAY COUNCILS**

As you will have seen in the Press, Chiltern District Council and Torbay Borough Council have both submitted applications to me for consent to sell their council housing stocks.

In agreeing our guidelines published in June, for local authorities contemplating such sales, you inevitably gave your approval to the policy (although you wished to have an opportunity to consider the Exchequer and public expenditure implications of at least the first few cases in which a large scale voluntary transfer of council housing to a private body was proposed.) Our officials have discussed the Chiltern and Torbay application. They have agreed the basis on which the disposal price has been reached, but the public expenditure implications caused some difficulties. The attached papers set out the position, in the light of discussion with your officials and those at DSS. Both transactions show a similar picture: an immediate capital receipt, but with the possibility that, in the very long run, public expenditure might be lower if we refused consents to the sales than if we allowed them to go ahead.

Since you agree the price there can be no question of our going back on the policy at this stage and thereby deceiving those local authorities we have previously encouraged. I would certainly want to take any such deception to the highest level. I think the public expenditure implications can be looked at in another light. What they offer is the certainty of a substantial capital receipt now, as compared with the inevitably speculative estimates of possible public expenditure costs many years into the future. Looked at over the remainder of this Parliament and the next two, the present value of the figures shows a net saving in public expenditure. It is only when we look well into the next century that the possibility of a net cost to public expenditure arises.



Even then, on some plausible assumptions, there could be a nil net cost. In forming a view whether the sale should go ahead, I feel that much greater weight needs to be placed on the figures for the near future, than the figures for the much more uncertain one far into the distance.

It is also relevant that the public expenditure implications of the sales at Chiltern and Torbay, whatever they may turn out to be, will not be much different from those which would have arisen had there been a Tenants' Choice application on the same stock. We should have had no way of stopping such a sale; so it would seem odd to object to a similar public expenditure outcome from a sale which does require our consent.

We also need to consider the merits of the proposed sale beyond those which can be identified in public expenditure calculations. I know, from your letter to Douglas French about Gloucester's proposed disposal of its housing, that you are enthusiastic for these transfers to proceed. We have a prospect here that we could not have imagined eighteen months ago: councils queueing up to withdraw from the direct provision of housing altogether. It seems to me that we must give councils every reasonable encouragement to volunteer to follow the example being set by Chiltern and Torbay. To fail to do so, would as I have said, be deception, since we have made public our policy of endorsing such sales.

In Torbay there has, of course, been controversy about the results of the ballot which the Council conducted. I have to reserve my final view until I have considered the formal proposals and representations which are being made to me. But I do not see any objection in principle to the rule which was incorporated in the 1986 Housing and Planning Act that I need only refuse consent to the Council's proposal to sell its property if I believe that a majority of the tenants affected opposes the proposal. That provision was brought in following Opposition pressure, and was welcomed at the time by Jeff Rooker and Simon Hughes for their respective Parties. So I see no reason to rule out of consideration Torbay's proposal. Issues about the ballot do not of course, arise at Chiltern, where there was a heavy vote in favour of the disposal.

Both councils, for different reasons, need an urgent decision. Torbay, supported by Rupert Allason and Anthony Steen, want an immediate yes to end the uncertainties. They and Chiltern consulted on the basis that the sale would take place before assured tenancies come into force on 15 January; they would have to go through the consultation process again if they missed that deadline for the transfer. In practice, they need a decision this week.

Given that our officials have agreed on the disposal price, in each case, I should be grateful for your agreement to my giving consent to the sales of housing proposed by Chiltern District Council and Torbay Borough Council. Because of the urgency it would be very helpful to know you are content by the morning of Wednesday 7

December, as I would want to come and see you if you do not agree these cases before I leave two day's later for China. I feel very strongly about this and I do not want to be open to the accusation of having deceived the Councils concerned.

I am copying this letter to the Prime Minister, John Moore, Malcolm Rifkind and Peter Walker and to Sir Robin Butler.

Yours sincerely,

Deborah Lamb

PP NICHOLAS RIDLEY

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

ANALYSIS OF THE POSSIBLE PUBLIC EXPENDITURE CONSEQUENCES OF THE PRIVATISATION OF CHILTERN'S COUNCIL HOUSING

Introduction

1. Under cover of a letter to the Treasury dated 18 November 1988 DOE set out some tentative estimates of the possible public expenditure consequences of the privatisation of Chiltern's council housing. Subsequently officials from the DOE and Treasury have met to agree detailed assumptions to allow some firmer calculations to be made. This note sets out the outcome.

2. Eight possible types of public expenditure effect of transfer have been identified and it is helpful to consider each in turn.

(1) Effect on Local Authority Gross Capital Expenditure

3. Following transfer of its housing stock to a new landlord, a local authority will no longer be responsible for undertaking major repairs to, modernising or improving its former housing stock. It will also cease to be a direct provider of new rented housing. Potentially, therefore, a saving in local authority capital expenditure may arise. On the other hand, the Council may decide in future to give grants to private landlords to help in the provision of new rented housing, in fulfilment of its enabling role.

4. Between 1986/6 and 1987/8 Chiltern's gross capital expenditure was as follows:

fm	1985/6	1986/7	1987/8 (Estimated)	Annual Average
New Build	0.7	1.1	1.1	1.0
Renovation	1.3	2.0	2.1	1.8
Total	2.0	3.1	3.3	2.8

5. The result of transfer is thus a potential saving of up to around £3m per annum. However the net saving will be less than this to the extent that the local authority uses its powers to give grants to private landlords. In Chiltern the maximum rate of grant allowed at present is 75%. Thus if the Council wishes to maintain annual investment in rented housing of around £3m in the Chiltern area in future, grants of £2.25m (£3m x £0.75) would be required, giving an annual net public expenditure saving of £0.75m.

6. However, it has been agreed between DOE and HMT officials that, in practice, savings in expenditure on housing would probably be used to fund expenditure of other sorts, leading to no net overall change in the public expenditure profile. On balance, therefore, no public expenditure saving is attributed to the possible changes in local authority gross capital expenditure as a result of transfer.

(ii) Receipts from the Sale

7. The receipt from the sale of the stock will count as netnegative public expenditure. Chiltern plan to dispose of their stock for £32.9m, including full allowance for the present value of expected RTB receipts. However 10% of this price is likely to be deferred for perhaps 5 years to assist funding and £1m is to be allowed against the transfer price for costs associated with the disposal. This gives a net receipt of £28.6m in year 1 and a further £3.3m in year 5. Since the price makes full provision for RTB sales receipts, there are no clawback arrangements.

(iii) Receipts Foregone

8. Even in the absence of a transfer of its housing to a new landlord Chiltern would have received a stream of receipts from RTB sales. In estimating the public expenditure consequences of the transfer this stream needs to be set against the receipts generated by the sale. There are two elements to the stream of foregone RTB receipts:

(a) sales of dwellings to existing tenants, which are effectively compensated for within the transfer price

(b) sales of dwellings to tenants of property relet after transfer. This will not be compensated for within the transfer price since whilst new lettings of property by the Council carry with them the right to buy, new lettings by the new landlords do not.

9. Using the central assumptions of future right to buy sales put forward by Chiltern and accepted by the Valuation Office Liaison Office (VOLO), the sales receipts due to existing tenants can readily be estimated. In present value terms it amounts to £22m over 30 years.

10. To estimate sales receipts foregone on relets, it is assumed that if the right to buy had been available a similar proportion of tenants would have taken it up through to completion as existing tenants. With this assumption, projections of the number of relets and an assumed average RTB price after discount (based on an assumed average RTB discount of 45% for new tenants of relets compared with 50% for existing tenants over the 30 year period covered), the RTB sales receipts foregone on relets can be estimated. In present value terms the sum involved totals around £4m. It should be noted that zero is assumed to be foregone from relets in the first two years following transfer in view of the qualifying period for RTB discounts.

(iv) Impact on Housing Benefit

11. Under the New Financial Regime the extent to which a housing benefit cost arises from transfer will depend on whether and, if so, to what degree rent rebates were previously funded out of Housing Revenue Account (HRA) surpluses rather than by the Exchequer. If the Council was able to fund its rent rebates in full out of HRA surpluses then the housing benefit cost of transfer will be equal to the value of the rent allowances paid to tenants after transfer which are financed by the Exchequer in their entirety. If the Council was only able to fund part of its rent rebates out of HRA surpluses then the housing benefit cost of transfer will equal the difference between the value of rent allowances paid to tenants of the new landlords and the value of rent rebates paid to the tenants when their landlord was the council, net of HRA surpluses. In the first year following transfer the existing rather than new financial regime will apply, and thus the public expenditure cost of transfer is simply the difference between total housing benefits paid, at the new landlords' proposed rent levels, and total housing benefits paid, at the Council's proposed rent levels, which in this case gives an estimated saving of £0.14m to £0.3m.

12. To estimate the possible housing benefit consequences of disposal under the new regime requires the projection of future trends in Chiltern's HRA and housing benefit payments under the council and the new landlords. The critical element in projecting the HRA is the assumptions one makes about trends in rental income relative to other elements. The following assumptions have been agreed between DOE and Treasury officials and used to project Chiltern's HRA forward:

(i) rents and rental income: in the absence of a clear statement of Council rent policy, assuming the local authority retained its housing stock, two scenarios have been considered:

(a) rent increases in line with DOE recommendations of 5% real in 1988/9 and 1989/90 and then 1% per annum real thereafter.

(b) rent increases of 10% real in 1988/89 and 1989/90, 5% real in 1990/91 and 1% per annum real thereafter.

(ii) all other income rises at 1% per annum in real terms apart from interest on unapplied capital receipts which rises at 5% per annum in real terms until 1990/91 and then rises by 4% in 1991/92, 3% in 1992/3, 2% in 1993/94 and 1% thereafter.

(iii) loan charges (interest and principal) remain constant in real terms.

(iv) all other items of expenditure (management, maintenance, repairs etc) rise by 1% per annum in real terms.

13. The next step is to project forward the new landlords' rental income and the proportion of this that is likely to be met from housing benefit. In turn, this requires projections of rent levels for existing and relet tenancies and numbers of dwellings let on existing and relet terms for each year of the period. Much of this information can be derived from the valuation model (on which the valuers drew in reaching a view on the transfer price) and the assumptions on which it was based. So far as the new landlord's stated policy is concerned, this model assumed rents of relets would be raised 85% relative to existing tenancies within 4 years of transfer and then remain unchanged in real terms thereafter. Rents of existing tenancies which were improved would rise 5% relative to unimproved existing tenancies and by 1% per annum real until 20 years after transfer when they would remain constant in real terms. Rents of unimproved existing tenancies would also rise by 1% real per annum until year 20 and then remain constant. However, as a test of the sensitivity of the results, calculations were also done with real rents rising by 2% per annum real.

14. More difficult is the projection of the housing benefit associated with the new landlords rental income stream. Here

some rather heroic assumptions were needed. The starting point for these assumptions were two pieces of factual information:

(i) information provided by the DSS indicated that 51% of Chiltern's tenants were on housing benefit at current rent levels.

(ii) Chiltern's 1988/9 subsidy claim form indicates that in 1987/8 38% of the rental income from the Council's housing stock was derived from housing benefit.

15. These two factual pieces of information imply that where a tenant is in receipt of rent rebates 75% of his rent is rebated on average ($0.51 \times 0.75 = 0.38$). As rents rise the proportions of tenants receiving benefit and the proportion of their rent rebated will change. Very little information is available on which to assess what form these changes will take. The DSS have no information at local authority level on which some assumptions could be based. However, the Department has access to a housing benefit model, known as the IGOTM model. Whilst this cannot do analyses at local authority level, it was possible to use it to examine what happens to the proportions of tenants on rent rebates and the proportion of rent rebated as rents rise at regional level. For the South West and South East (excluding London), which covers Chiltern amongst other areas, it suggested a linear relationship, ie these proportions rose proportionately with rises in rent levels.

16. Applying this linear relationship to the percentage of tenants on benefit, this suggested that for relets virtually all tenants would be in receipt of housing benefit within 30 years of transfer, depending on the new landlords' rent policy. Since it seemed implausible that Government would ever contemplate paying all the rent of all a landlord's tenants, the proportion of rent rebated was assumed throughout to remain constant at its present level of 75%, rather than rise in proportion to rent increases.

17. With the new landlord's projected rental income, projections of the proportion of tenants on benefit and the proportion of rent met by housing benefit where a tenant is in receipt of benefit, a projection of total housing benefit payments can be derived. Applying the same method, produced projections of housing benefit payments under council ownership and thus, along with the projected HRA surpluses, estimates of the housing benefit consequences of transfer.

18. Over 30 years, the present value of the impact of transfer on public expenditure on housing benefit was estimated to be in the range +£7m to +£28m.

(v) Effect on Main Housing Subsidy

19. If the Council was to keep its housing, under the New Financial Regime, their entitlement to subsidy would depend essentially on the extent to which deemed surpluses on the HRA proved insufficient to cover the cost of housing benefit. This has been dealt with in the previous section.

20. If the Council sells its housing, it is intended that authorities would be entitled to subsidy only if their housing was sold at a price below their outstanding loan debt. Since Chiltern proposes to sell for more than its outstanding loan debt, the sale will not bring it any change in its existing zero subsidy entitlement.

(vi) Effect on Contributions to or from the Rate Fund

21. Chiltern has made small rate fund contributions to its HRA in recent years. In principle, these would be saved if the transfer goes ahead, but under the new financial regime in the absence of transfer these contributions would cease. It is thus assumed that there will be no public expenditure consequences of transfer under this heading.

(vii) Repayment of Corporation Tax

22. Chiltern Hundreds Housing Association will be a non-charitable housing association, and so will be liable to corporation tax on trading surpluses and to taxation of capital gains arising from RTB sales. However, under section 62 of the Housing Associations Act 1985, it may be eligible for grants to meet the cost of such tax liabilities. Such grants currently score as public expenditure, but their likely magnitude is highly speculative. The Exchequer effect is neutral, since the grants simply refund the tax paid.

(viii) Indirect and Other Effects

23. Public expenditure may finally be affected by the transfer to the extent that the new landlord is more or less efficient than the local authority. For example, the housing association may operate with a lower void rate, thus possibly saving the authority some expenses in housing the homeless. But such effects are even more speculative than (vii).

24. It has also been suggested that the administration cost of rent allowances for tenants of the transferred stock will prove greater than the administrative cost of the previous rent rebates. No information is available to quantify this effect, but it is believed to be small.

Conclusions

25. Table 1 summarises the possible public expenditure consequences of the privatisation of Chiltern's council housing under four alternative scenarios. All of them suggest a saving in net present value terms, in the first 10 to 15 years following transfer. However, in several scenarios there is a significant long run public expenditure cost. Assessing which of

the alternatives is the most likely outcome is difficult because it requires a view of both what the local authority would do if it retained its housing stock for the next 30 years and what the new landlords' policy will be over the next 30 years. A range of possibilities has therefore been presented.

26. Tables 2 and 3 break down the public expenditure consequences of transfer into their individual categories for two of the scenarios considered (those with the greatest saving and the greatest cost). The potential Exchequer costs of transfer consist solely of the estimated housing benefit costs, a range of possible outcomes for this being given in the disaggregated analyses in these tables.

TABLE 1

Summary of Possible Public Expenditure Implications of the Privatisation of Chiltern's Council Housing

	Annual Saving (-) / Cost (+)					Cumulative Present Value of Saving (-) / Cost (+) After:			
	Year 1	Year 2	Year 3	Year 4	Year 5	10 Years	15 Years	20 Years	30 Years
(i) Assuming the DOE recommendations for the Council's rent policy and the new landlord's rent policies as built into the valuation	-24.8	+3.8	+4.6	+1.8	-1.3	-7.5	-2.3	+1.0	+4.4
(ii) Assuming Council rent increases above DOE recommendations but the new landlord's policy as built into the valuation	-24.9	+3.8	+4.5	+1.8	-1.3	-7.5	-2.9	+0.3	+3.4
(iii) Assuming higher real rent increases than the new landlord's policy but DOE recommendations for the Council's policy	-24.8	+3.8	+4.7	+1.9	-1.2	-5.5	+2.0	+9.3	+23.2
(iv) Assuming higher real rent increases than the new landlord's policy and Council rent increases above DOE recommendations	-24.9	+3.8	+4.7	+1.8	-1.2	-5.9	+1.4	+8.5	+22.1

TABLE 2

Disaggregated Analysis of the Possible Public Expenditure Implications of the Privatisation of Chiltern's Council Housing

	Year 1	Annual Saving (-) / Cost (+)				Year 5	Cumulative Present Value of Saving (-) / (Cost) (+) After:			
		Year 2	Year 3	Year 4	10 Years		15 Years	20 Years	30 Years	
1. Effect on gross capital expenditure	0	0	0	0	0	0	0	0	0	
2. Receipts from sale	-28.6	0	0	0	-3.29	-29.8	-29.8	-29.8	-29.8	
3. Receipts foregone:										
on existing tenants	+4.0	+4.20	+4.40	+1.59	+1.62	+19.7	+21.5	+22.2	+22.2	
on relets	0	0	+0.39	+0.58	+0.79	+2.51	+3.52	+4.07	+4.07	
4. Impact on housing benefit	-0.3	-0.42	-0.24	-0.07	+0.05	+0.15	+1.92	+3.9	+6.96	
5. Effect on main housing subsidy	0	0	0	0	0	0	0	0	0	
6. Effect on rate fund contributions	0	0	0	0	0	0	0	0	0	
7. Repayments of corporation tax etc	?	?	?	?	?	?	?	?	?	
8. Indirect and other effects	?	?	?	?	?	?	?	?	?	
TOTAL NET EFFECT	-24.9	+3.8	+4.6	+1.8	-1.4	-7.5	-2.9	+0.3	+3.4	

Note: Parts may not sum to total due to rounding

TABLE 3

Disaggregated Analysis of the Possible Public Expenditure Implications of the Privatisation of Chiltern's Council Housing

	Annual Saving (-) / Cost (+)					Cumulative Present Value of Saving (-) / Cost (+) After:			
	Year 1	Year 2	Year 3	Year 4	Year 5	10 Years	15 Years	20 Years	30 Years
1. Effect on gross capital expenditure	0	0	0	0	0	0	0	0	0
2. Receipts from sale	-28.6	0	0	0	-3.29	-29.8	-29.8	-29.8	-29.8
3. Receipts foregone: on existing tenants on relets	+4.0 0	+4.2 0	+4.4 +0.39	+1.59 +0.58	+1.62 +0.79	+19.7 +2.51	+21.5 +3.52	+22.2 +4.07	+22.2 +4.07
4. Impact on housing benefit	-0.14	-0.36	-0.14	+0.06	+0.23	+2.16	+6.75	+12.85	+26.74
5. Effect on main housing subsidy	0	0	0	0	0	0	0	0	0
6. Effect on rate fund contributions	0	0	0	0	0	0	0	0	0
7. Repayments of corporation tax etc	?	?	?	?	?	?	?	?	?
8. Indirect and other effects	?	?	?	?	?	?	?	?	?
TOTAL NET EFFECT	- 24.8	+3.8	+4.7	+1.9	+1.2	-5.5	+2.0	+9.3	+23.2

Note: parts may not sum to total due to rounding

ANALYSIS OF THE POSSIBLE PUBLIC EXPENDITURE CONSEQUENCES OF THE
PRIVATISATION OF TORBAY'S COUNCIL HOUSING

Introduction

1. Under cover of a letter to the Treasury dated 15 November 1988 DOE set out some tentative estimates of the possible public expenditure consequences of the privatisation of Torbay's council housing. Subsequently officials from the DOE and Treasury have met to agree detailed assumptions to allow some firmer calculations to be made. This note sets out the outcome.

2. Eight possible types of public expenditure effect of transfer have been identified and it is helpful to consider each in turn.

(i) Effect on Local Authority Gross Capital Expenditure

3. Following transfer of its housing stock to a new landlord, a local authority will no longer be responsible for undertaking major repairs to, modernising or improving its former housing stock. It will also cease to be a direct provider of new rented housing. Potentially, therefore, a saving in local authority capital expenditure may arise. On the other hand, the Council may decide in future to give grants to private landlords to help in the provision of new rented housing, in fulfilment of its enabling role.

4. Between 1986/6 and 1987/8 Torbay's gross capital expenditure was as follows:

fm	1985/6	1986/7	1987/8	Annual Average
New Build	2.5	0.9	1.1	1.5
Renovation	0.9	0.2	0.3	0.5
Total	3.3	1.1	1.4	2.0

5. The result of transfer is thus a potential saving of up to around £2m per annum. However the net saving will be less than this to the extent that the local authority uses its powers to give grants to private landlords. In Torbay the maximum rate of grant allowed at present is 60%. Thus if the Council wishes to maintain annual investment in rented housing of at least £2m in the Torbay area in future, grants of £1.2m (£2m x 0.6) would be required, giving an annual net public expenditure saving of £0.8m.

6. However, it has been agreed between DOE and HMT officials that, in practice, savings in expenditure on housing would probably be used to fund expenditure of other sorts, leading to no net overall change in the public expenditure profile. On balance, therefore, no public expenditure saving is attributed to the possible changes in local authority gross capital expenditure as a result of transfer.

(ii) Receipts from the Sale

7. The receipt from the sale of the stock will count as net negative public expenditure. There are a number of elements to the Torbay sale price:

(i) an initial payment between £19m to £24.3m (after deduction of £1.75m for the costs of the sale, £450,000 for the provision of 3 community centres by the new landlords, and £500,000 in lieu of a survey). The £19m to £24.3m range arises because the initial payment will be based on a discount rate of a minimum of 11% and a maximum 13%, the actual figure to be determined on the basis of prevailing market interest rates at completion of the sale, subject to the council having the right to seek a recalculation of the price and further payments from the two associations if interest rates move in the Council's favour within 5 years of sale.

(ii) a stream of payments associated with sales of property under Right-to-Buy. There are a number of separate payment streams to take into account:

(a) RTB applications in the pipeline at April 1988. 800 properties are covered here. For those applications that go through to actual sale, the local authority will receive the entire receipt. Those properties subject to RTB applications that fall through will be sold to the two associations at their net rental value 5 years after transfer of the stock. At an estimated year 1 net rental value of £10,500 per property and assuming half the 800 applications fall through this gives a receipt of £4.2m

(b) RTB applications in the pipeline at exchange of contracts. There are expected to be 500 of these and payments to the local authority will consist of their net rental value, again deferred 5 years, and 100% clawback of RTB receipts over net rental value as and when sales occur. At £10,500 per property this gives a deferred payment of £5.25m and, assuming half the applications lead to actual sales (150 in year 1 and 100 in year 2) clawback payments of £2.1m in year 1 and £1.4m in year 2.

(c) RTB sales arising from applications after transfer. Receipts from these sales are largely allowed for in the initial payment, though the Council will also enjoy clawback of 50% of the excess of RTB receipts over net rental value. This produces receipts nearly £0.3m in year 3 falling to around £0.15m from year 10.

8. In present value terms, discounting at 5% real, the expected receipts from the sale total between £32m and £37m over 30 years.

(iii) Receipts Foregone

9. Even in the absence of a transfer of its housing to a new landlord Torbay would have received a stream of receipts from RTB sales. In estimating the public expenditure consequences of the transfer this stream needs to be set against the receipts generated by the sale. There are two elements to the stream of foregone RTB receipts:

(a) sales of dwellings to existing tenants, which are effectively compensated for within the transfer price

(b) sales of dwellings to tenants of property relet after transfer. This will not be compensated for within the transfer price since whilst new lettings of property by the Council carry with them the right to buy, new lettings by the new landlords do not.

10. Using the central assumptions of future right to buy sales put forward by Torbay and accepted by the Valuation Office Liaison Office (VOLO), the sales receipts due to existing tenants can readily be estimated. In present value terms it amounts to £15m over 30 years.

11. To estimate sales receipts foregone on relets, it is assumed that if the right to buy had been available a similar proportion of tenants would have taken it up through to completion as existing tenants. With this assumption, projections of the number of relets and an assumed average RTB price after discount (based on an assumed average RTB discount of 45% for new tenants of relets compared with 50% for existing tenants over the 30 year period covered), the RTB sales receipts foregone on relets can be estimated. In present value terms the sum involved totals around £3½m. It should be noted that zero is assumed to be foregone from relets in the first two years following transfer in view of the qualifying period for RTB discounts.

(iv) Impact on Housing Benefit

12. Under the New Financial Regime the extent to which a housing benefit cost arises from transfer will depend on whether and, if so, to what degree rent rebates were previously funded out of Housing Revenue Account (HRA) surpluses rather than by the Exchequer. If the Council was able to fund its rent rebates in full out of HRA surpluses then the housing benefit cost of transfer will be equal to the value of the rent allowances paid to tenants after transfer which are financed by the Exchequer in their entirety. If the Council was only able to fund part of its rent rebates out of HRA surpluses then the housing benefit cost of transfer will equal the difference between the value of rent allowances paid to tenants of the new landlords and the value of rent rebates paid to the tenants when their landlord was the council, net of HRA surpluses. In the first year following transfer the existing rather than new financial regime will apply, and thus the public expenditure cost of transfer is simply the difference between total housing benefits paid, at the new landlords' proposed rent levels, and total housing benefits paid, at the Council's proposed rent levels, which in this case gives an estimated saving of £0.3m to £0.65m.

13. To estimate the possible housing benefit consequences of disposal under the new regime requires the projection of future trends in Torbay's HRA and housing benefit payments under the council and the new landlords. The critical element in projecting the HRA is the assumptions one makes about trends in rental income relative to other elements. The following assumptions have been agreed between DOE and Treasury officials and used to project Torbay's HRA forward:

(i) rents and rental income: two scenarios have been considered:

(a) rent increases in line with the Council's actual and stated policy until 1990/91 which gives real rent increases of 23% in 1988/89 and 12½% in 1989/90. Thereafter a 5% real increase is assumed in 1990/91, 4% in 1991/92, 3% in 1992/93, 2% in 1993/94 and 1% in 1994/95 and later years.

(b) rent increases in line with DOE recommendations to local authorities, ie 5% real in 1988/89, 5% in 1989/90 and then an assumed 1% per annum thereafter.

(ii) all other income rises at 1% per annum in real terms apart from interest on unapplied capital receipts which rise at 5% per annum in real terms until 1990/91 and then rises by 4% in 1991/92, 3% in 1992/3, 2% in 1993/94 and 1% thereafter.

(iii) loan charges (interest and principal) remain constant in real terms.

(iv) all other items of expenditure (management, maintenance, repairs etc) rise by 1% per annum in real terms.

14. The next step is to project forward the new landlords' rental income and the proportion of this that is likely to be met from housing benefit. In turn, this requires projections of rent levels for existing and relet tenancies and numbers of dwellings let on existing and relet terms for each year of the period. Much of this information can be derived from the valuation model (on which the valuers drew in reaching a view on the transfer price) and the assumptions on which it was based. So far as the new landlord's stated policy is concerned, this model assumed rents of relets would be raised 10% relative to existing tenancies in year 1 following transfer and that both rents of existing and relet properties would rise by 1% per annum in real terms thereafter. However, as a test of the sensitivity of the results, calculations were also done with real rents rising by 2% per annum.

15. More difficult is the projection of the housing benefit associated with the new landlords rental income stream. Here

some rather heroic assumptions were needed. The starting point for these assumptions were two pieces of factual information:

(i) the local authority stated in one of its submissions to DOE that 68% of its tenants were on housing benefit at current rent levels

(ii) Torbay's 1988/9 subsidy claim form indicates that in 1987/8 58% of the rental income from the Council's housing stock was derived from housing benefit.

16. These two factual pieces of information imply that where a tenant is in receipt of rent rebates 85% of his rent is rebated on average ($0.68 \times 0.85 = 0.58$). As rents rise the proportions of tenants receiving benefit and the proportion of their rent rebated will change. Very little information is available on which to assess what form these changes will take. The DSS have no information at local authority level on which some assumptions could be based. However, the Department has access to a housing benefit model, known as the IGOTM model. Whilst this cannot do analyses at local authority level, it was possible to use it to examine what happens to the proportions of tenants on rent rebates and the proportion of rent rebated as rents rise at regional level. For the South West and South East (excluding London), which covers Torbay, amongst other areas, it suggested a linear relationship, ie these proportions rose proportionately with rises in rent levels.

17. Applying this linear relationship to the percentage of tenants on benefit, this suggested that for relets virtually all tenants would be in receipt of housing benefit within 30 years of transfer, on the new landlords' stated rent policy as built into the valuation. Since it seemed implausible that Government would ever contemplate paying all the rent of all a landlord's tenants, the proportion of rent rebated was assumed throughout to remain constant at its present level of 85%, rather than rise in proportion to rent increases.

18. With the new landlord's projected rental income, projections of the proportion of tenants on benefit and the proportion of rent met by housing benefit where a tenant is in receipt of benefit, a projection of total housing benefit payments can be derived. Applying the same method, produced projections of housing benefit payments under council ownership and thus, along with the projected HRA surpluses, estimates of the housing benefit consequences of transfer.

19. Over 30 years, the present value of the impact of transfer on public expenditure on housing benefit was estimated to be in the range +£18m to +£32m.

(v) Effect on Main Housing Subsidy

20. If the Council was to keep its housing, under the New Financial Regime, their entitlement to subsidy would depend essentially on the extent to which deemed surpluses on the HRA proved insufficient to cover the cost of housing benefit. This has been dealt with in the previous section.

21. If the Council sells its housing, it is intended that authorities would be entitled to subsidy only if their housing was sold at a price below their outstanding loan debt. Since Torbay proposes to sell for more than its outstanding loan debt, the sale will not bring it any change in its existing zero subsidy entitlement.

(vi) Effect on Contributions to or from the Rate Fund

22. Torbay has made no Rate Fund contributions to its HRA for several years. Indeed, in recent years, surpluses on the HRA have been transferred to the General Rate Fund. Under both the existing and new financial regime, such contributions to the Rate Fund count as income rather than as negative public expenditure. So although they will cease, there will be no public expenditure cost under this heading.

(vii) Repayment of Corporation Tax

23. Devon and Cornwall Housing Association is charitable, and therefore not liable to corporation tax or capital gains tax. Westcountry is a non-charitable housing association, and so will be liable to corporation tax on trading surpluses and to taxation of capital gains arising from RTB sales. However, under section 62 of the Housing Associations Act 1985, they may be eligible for grants to meet the cost of such tax liabilities. Such grants currently score as public expenditure, but their likely magnitude is highly speculative. The Exchequer effect is neutral, since the grants simply refund the tax paid.

(viii) Indirect and Other Effects

24. Public expenditure may finally be affected by the transfer to the extent that the new landlords are more or less efficient than the local authority. For example, they may operate with a lower void rate, thus possibly saving the authority some expenses in housing the homeless. But such effects are even more speculative than (vii).

25. It has also been suggested that the administration cost of rent allowances for tenants of the transferred stock will prove greater than the administrative cost of the previous rent rebates. No information is available to quantify this effect, but it is believed to be small.

Conclusions

26. Table 1 summarises the possible public expenditure consequences of the privatisation of Torbay's council housing under eight alternative scenarios. All of them suggest a saving in net present value terms, in the first 15 to 20 years following transfer. However, in a number of scenarios there is a significant long run public expenditure cost. Assessing which of

the alternatives is the most likely outcome is difficult because it requires a view of both what the local authority would do if it retained its housing stock for the next 30 years and what the new landlords' policy will be over the next 30 years. A range of possibilities has therefore been presented.

27. Tables 2 and 3 break down the public expenditure consequences of transfer into their individual categories for two of the scenarios considered (those with the greatest saving and the greatest cost). The potential Exchequer costs of transfer consist solely of the estimated housing benefit costs, a range of possible outcomes for this being given in the disaggregated analyses in these tables.

TABLE 1

Summary of Possible Public Expenditure Implications of the Privatisation of Torbay's Council Housing

	Annual Saving (-) / Cost (+)					Cumulative Present Value of Saving (-) /Cost (+) After:			
	Year 1	Year 2	Year 3	Year 4	Year 5	10 Years	15 Years	20 Years	30 Years
A. Assuming Maximum Year 1 Payment of £26.4m for the Transferred Housing									
(i) Assuming the Council's and the new landlords' stated rent policies	-23.4	+2.1	+1.9	+2.0	-7.4	-15.8	-11.0	-6.6	0.0
(ii) Assuming DOE recommendations for Council rent policy but the new landlords stated policy	-23.0	+2.0	+1.8	+2.0	-7.4	-15.5	-10.5	-5.9	+1.3
(iii) Assuming higher real rent increase than new landlords' stated policy but Council's stated policy	-23.4	+2.1	+2.0	+2.1	-7.2	-14.1	-7.3	-0.4	+12.5
(iv) Assuming higher real rent increase than new landlords' stated policy and DOE recommendations for Council rent policy	-23.0	+2.0	+1.9	+2.1	-7.2	-13.8	-6.8	+0.3	+13.8

TABLE 1 Cont

	Annual Saving (-) / Cost (+)					Cumulative Present Value of Saving (-) / Cost (+) After:			
	Year 1	Year 2	Year 3	Year 4	Year 5	10 Years	15 Years	20 Years	30 Years
B. Assuming Minimum Year 1 Payment of £21.1m for the Transferred Housing									
(i) As A(i)	-18.1	+2.1	+1.9	+2.0	-7.4	-10.7	-5.9	-1.5	+5.1
(ii) As A(ii)	-17.7	+2.0	+1.8	+2.0	-7.4	-10.4	-5.4	-0.8	+6.3
(iii) As A(iii)	-18.1	+2.1	+2.0	+2.1	-7.2	-9.1	-2.3	+4.7	+17.6
(iv) As A(iv)	-17.7	+2.0	+1.9	+2.1	-7.2	-8.8	-1.8	+5.4	+18.8

TABLE 2

Disaggregated Analysis of the Possible Public Expenditure Implications of the Privatisation of Torbay's Council Housing

	Year 1	Annual Saving (-) / Cost (+)				Year 5	Cumulative Present Value of Saving (-) / (Cost) (+) After:			
		Year 2	Year 3	Year 4	10 Years		15 Years	20 Years	30 Years	
1. Effect on gross capital expenditure	0	0	0	0	0	0	0	0	0	
2. Receipts from sale	-26.4	-1.4	-0.3	-0.3	-9.75	-35.6	-36.0	-36.4	-36.8	
3. Receipts foregone: on existing tenants	+3.63	+2.47	+1.01	+1.03	+1.05	+11.6	+12.8	+13.8	+15.0	
on relets	0	0	+0.11	+0.17	+0.20	+1.4	+1.9	+2.5	+3.3	
4. Impact on housing benefit	-0.65	+1.03	+1.06	+1.08	+1.10	+6.9	+10.4	+13.4	+18.5	
5. Effect on main housing subsidy	0	0	0	0	0	0	0	0	0	
6. Effect on rate fund contributions	0	0	0	0	0	0	0	0	0	
7. Repayments of corporation tax etc	?	?	?	?	?	?	?	?	?	
8. Indirect and other effects	?	?	?	?	?	?	?	?	?	
TOTAL NET EFFECT	-23.4	+2.1	+1.9	+2.01	-7.4	-15.8	-11.0	-6.6	0.0	

TABLE 3

Disaggregated Analysis of the Possible Public Expenditure Implications of the Privatisation of Torbay's Council Housing

	Annual Saving (-) / Cost (+)					Cumulative Present Value of Saving (-) / Cost (+) After:			
	Year 1	Year 2	Year 3	Year 4	Year 5	10 Years	15 Years	20 Years	30 Years
1. Effect on gross capital expenditure	0	0	0	0	0	0	0	0	0
2. Receipts from sale	-21.1	-1.4	-0.3	-0.3	-9.75	-30.6	-31.0	-31.3	-31.7
3. Receipts foregone: on existing tenants	+3.63	+2.47	+1.01	+1.03	+1.05	+11.6	+12.8	+13.8	+15.0
on relets	0	0	+0.11	+0.17	+0.20	+1.4	+1.9	+2.5	+3.3
4. Impact on housing benefit	-0.26	+0.99	+1.10	+1.21	+1.30	+8.9	+14.5	+20.3	+32.2
5. Effect on main housing subsidy	0	0	0	0	0	0	0	0	0
6. Effect on rate fund contributions	0	0	0	0	0	0	0	0	0
7. Repayments of corporation tax etc	?	?	?	?	?	?	?	?	?
8. Indirect and other effects	?	?	?	?	?	?	?	?	?
TOTAL NET EFFECT	-17.7	+2.0	+1.9	+2.1	-7.2	-8.8	-1.8	+5.4	+18.8

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From the Private Secretary

5 December 1988

Dear Lady,

**HOUSING SUBSIDY FOLLOWING LARGE-SCALE DISPOSALS
OF STOCK**

The Prime Minister was grateful for your Secretary of State's minute of 24 November and the attached paper by officials. She thinks it would be sensible to put this issue on the agenda for the next meeting of E(LF).

I am copying this letter to the Private Secretaries to the members of E(LF), the Attorney General, and Sir Robin Butler.

*Yours,
Paul*

(PAUL GRAY)

Roger Bright, Esq.,
Department of the Environment.

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HOUSING POLICY

FLEXI-OWNERSHIP AND RENTS TO MORTGAGES

Note by the Cabinet Office

1. At the Group's meeting on 21 July we were asked to do further work on a revised flexi-ownership scheme, drawing on the three sets of proposals which the Group had considered, with a view to producing a single scheme. We were also asked to consider how to ensure that flexi-owners gave up the right to claim housing benefit at a later date; and to explore what could be achieved under existing legislation. The attached Note by Officials records the outcome of this further work.

A Single Scheme

2. The official group have been able to agree many of the features of a single flexi-ownership scheme. These are set out in paragraph 2 of the Note by Officials. Ministers are invited to endorse them as the basis for any flexi-ownership scheme.

3. There are however a number of key issues on which Ministerial decisions are needed:

i. how generous the scheme should be. This affects in particular the level of the free initial discount to be offered to flexi-owners, and the maximum number of bonus points they can earn by staying in the house. The issues and their financial effects are explored in paragraphs 4-10 of the attached Note;

ii. whether there should be a special scheme for older tenants, under which those above retirement age would not be required to convert their rents into mortgages in order to become flexi-owners. The implications of such a scheme and the financial effects are explored in paragraphs 11-14 of the attached Note;

iii. whether the existing safeguards to prevent possible abuse of social security benefits set out in paragraphs 16-18 of the Note, are sufficient.

Next Steps

4. If Ministers want to proceed with a scheme, they will wish to consider the best timing for its introduction. Capital receipts from conventional Right-to-Buy (RTB) sales are buoyant at the moment: careful handling of introduction would be needed to minimise the potential loss to the Exchequer. One possibility, raised at the last Ministerial meeting, would be to have experimental schemes in Scotland and Wales under existing legislation. This is explored in paragraphs 19 to 22 of the Note.

Conclusions

5. Ministers are invited to decide these issues and the basis on which further work should proceed.

Cabinet Office

2 December 1988

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HOUSING POLICY

FLEXI-OWNERSHIP AND RENTS TO MORTGAGES

Note by Officials

1. This paper reflects the outcome of further work by officials, following the Ministerial Group's meeting on 21 July. In the interests of readability we refer to 'houses' rather than 'dwellings'; but any flexi-ownership scheme would also cover flats.

AGREED FEATURES OF A SINGLE SCHEME

2. The features which we have been able to agree are as follows:

i. eligibility. This would be the same as for Right-to-Buy (RTB). The normal requirement would be 2 years as a tenant. A tenant who exercised his flexi-ownership right would become the legal owner of his house, subject to certain legal charges on it;

ii. flexi-owner's mortgage. A flexi-owner would cease to pay rent, but would be required to take out a normal commercial mortgage (secured by a charge on the house) with repayments broadly equal to his current rent, less £5 per week to allow for maintenance, or make an equivalent payment from savings. He could of course take out a larger mortgage or pay more from savings if he wished. The capital sum raised would be used to buy a proportion of the house at its current market price;

iii. free initial discount. In addition the tenant would be given an initial discount, related to but less than the Right-to-Buy discount, so that he would own a proportion of the house free from any legal charge on the property from the outset. The size of this discount is one of the issues which needs to be decided (see below);

iv. public sector charge. The public sector would retain a charge on the property, expressed as a percentage of the market price, which would be equal to the remaining equity in the dwelling;

v. free bonus points. The flexi-owner would be given one percentage point of additional equity for each year he continued to live in the house, subject to a maximum ceiling. This would be matched by a reduction in the public sector charge. The ceiling on these points is a second issue to be decided (see below);

vi. purchases of further equity. The flexi-owner would have a right to buy out some or all of the remaining public charge on his house at any time, at the market price at that time;

vii. repair and maintenance. The flexi-owner or his family would be responsible for repair and maintenance of the property, and would covenant to keep it in good repair. Heirs would be required to maintain the covenant;

viii. repayment of public sector charge. When the flexi-owner or his heirs sold the property the remaining public sector charge as it then stood would have to be repaid, as a percentage of the proceeds.

3. Ministers are invited to endorse these proposals as the basis for a possible flexi-ownership scheme.

INITIAL DISCOUNT FOR FLEXI-OWNERS

4. There are many different ways in which the free initial discount could be calculated, and a maximum imposed on the number of subsequent bonus equity points. The two main options put forward by Departments are:

i. option I, under which the flexi-owner would buy a proportion of the property, calculated at the full market price, to which would be added an initial discount, equal to his Right-to-Buy discount minus 10 percentage points. He would subsequently receive one percentage point of additional equity every year until the total free equity (initial discount plus bonus points) reached the maximum RTB discount minus 10% (50% for a house);

ii. option II, under which a flexi-owner who paid X% of the Right-to-Buy discounted price for his house would get X% of the equity. This would mean that he got X% of his RTB discount. He would subsequently receive one percentage point of additional equity every year until his total stake in the house (including the stake he had originally paid for) reached the maximum RTB discount (60% for a house).

The implications of these two options for the equity stake of typical flexi-owners are shown in Annex A.

5. Option I, under which the tenant's initial free discount is equal to his Right-to-Buy (RTB) discount minus 10 percentage points, has the following main advantages:

i. it is reasonably generous, which might encourage substantial take-up by tenants who cannot afford RTB. It offers most tenants a reasonable share of their properties, and therefore a substantial step towards full ownership, even in high price areas like London and the South East;

ii. it can readily be extended into a special scheme for older tenants, either immediately or at some future date. They would be exempted from the requirement to take out a flexi-owner's mortgage. Their initial equity share would simply be the initial free discount (RTB minus 10%).

6. Option I's main disadvantages are:

i. it could, because of its relative generosity, encourage more tenants than under option II to switch from full RTB to flexi-ownership;

ii. its fairness could be criticised, both as between flexi-owners and as compared with RTB. Flexi-owners in different areas would all take out similar mortgages (because rents do not vary greatly across the country), but those in high price areas would be credited with a much higher capital stake in their houses (because the free discount is expressed as a percentage of the house price and prices vary far more than rents). In contrast under RTB the tenant in a high price area has to take out a much larger mortgage than the tenant in a low price area. Existing RTB purchasers and the general public might resent the element of give-away inherent in this option.

7. Option II, under which the tenant's initial free discount is a proportion of his RTB discount, equal to the proportion of the RTB discounted price which he pays, would have the following main advantages:

i. it is less generous than option I, and this might reduce switching from conventional RTB. Full home ownership would therefore be encouraged, and loss of RTB receipts reduced;

ii. it is consistent with RTB, and arguably simpler to explain than option I. A tenant paying X% of the RTB price gets X% of the equity in his house. It is also fairer as between flexi-owners: two tenants with a 50% RTB discount and taking out a £5,000 mortgage would each get a £10,000 stake in their properties, even if one lived in the South East and one in the North of England.

8. Option II's main disadvantages are:

i. it might not be generous enough to generate substantial take-up among those who could not afford RTB. This might particularly apply in Scotland, where there is a strong tradition of renting from the public sector. But there could also be problems in high-price areas, because most tenants in these areas would be credited with only a minority stake in their houses. Moreover, the inclusion of the stake initially purchased within the 60% ceiling on bonus points would restrict the maximum discount for flexi-owners, particularly in areas where house prices were low;

ii. although there could be a special scheme for older tenants, as with option I, such a scheme would fit less well with the structure of option II and so could appear arbitrary.

9. The PSBR implications of option I (both with and without special terms for the elderly) and option II are shown in Annex B. Ministers should note that the results of the new financial appraisal are generally less favourable than the figures provided in our July report, for the following main reasons:

i. higher forecast receipts from RTB reflecting the latest actual figures, which were not available in July. The new figures are consistent with PES assumptions;

ii. higher assumed take up of RTB by older tenants reflecting an analysis of actual RTB sales which was not available in July;

iii. revised RPI and house price inflation assumptions provided by the Treasury in October.

Ministers should note that the assumptions are purely illustrative and represent only a series of guesses about what might happen. The calculations are very sensitive to what assumptions are made and should not be interpreted as forecasts of what is likely to happen in practice.

10. Case A assumes that tenants will be heavily influenced by the prospect of capital gains from full ownership, resulting in minimal switching from RTB. On this assumption, both schemes show substantial PSBR savings in the early years. Case B assumes that tenants will be more concerned about short-term effects on cash in hand, resulting in higher switching. On that assumption both options show heavy PSBR costs in the early years. In the longer term, the figures are particularly sensitive to the assumptions made, and the results vary between large gains and significant losses. These figures suggest that, while there is a risk of PSBR costs on certain assumptions, the schemes cannot be appraised financially with sufficient certainty to provide decisive arguments for or against proceeding. A great deal depends on behavioural effects which cannot be predicted with any confidence. Ministers will need to consider whether a scheme on the lines of either option I or option II is justified in terms of its other benefits, and whether these outweigh the risk of financial costs. The precise details of either option could be adjusted to make it more or less generous to flexi-owners. The choice between the options depends to some extent on whether Ministers want a special scheme for older tenants, as discussed in the following section.

A SPECIAL SCHEME FOR OLDER TENANTS

11. At the Group's last meeting Ministers saw some strong attractions in a special arrangement for tenants above retirement age, which would allow them to become flexi-owners without taking out a mortgage or making an equivalent capital payment. Under option I tenants over retirement age would simply get the initial flexi-ownership discount (RTB minus 10%) as their equity share. Tenants within 5 years of retirement age would be subject to a reduced flexi-owner's mortgage on a sliding scale (100%, 80%, 60%, 40% and 20% of the full mortgage in successive years up to retirement) to avoid any incentive to defer becoming flexi-owners. Under option II a similar scheme could be proposed to ensure that the same group of older tenants would get, say, an automatic 50% discount, with similar arrangements to avoid a cliff-edge and to avoid any incentive for them to defer becoming flexi-owners. In both cases the public sector charge would be higher than for a younger purchaser on a similar

discount: the whole of the value of the house not covered by the discount entitlement would be covered by the public sector charge.

12. The main advantages of such a scheme for the elderly are:

i. it would open flexi-ownership to all tenants over retirement age who thought they could afford the cost of upkeep. Take-up is hard to predict, but under Case A we have assumed that 50% of tenants in the age group on full housing benefit and 60% of those on the taper would become flexi-owners. It would also help many older tenants with incomes above benefit levels who would find it difficult to get mortgages;

ii. it is the only part of the revised flexi-ownership proposals which could substantially cut the caseload of the rent rebate system, reducing the dependency culture and the poverty trap. Many flexi-owners would however remain eligible for community charge rebates;

iii. many more elderly tenants would have the chance to own significant assets, which they could pass on to their heirs, potentially reducing dependency in the next generation.

13. 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 relatives. That could increase the number of elderly people in poor housing, with eventual pressure for Government assistance;

ii. the main financial benefits would accrue to the heirs of older tenants rather than to the tenants themselves. It is not obvious why the heirs should benefit from such a quickly realisable capital gain, and this could be difficult to defend;

iii. it would remove from the public sector those dwellings most likely to be available for re-letting in the short to medium

term. This could exacerbate the problems associated with homelessness, and increase pressure to build new dwellings for letting at affordable rents.

These disadvantages would apply to any scheme designed to encourage wider home ownership among older tenants: they are not specific to the scheme set out in paragraph 11 above.

14. The PSBR implications of adding a special scheme for older tenants to the option I flexi-ownership scheme are shown in Annex B. In the early years the special concessions could reduce the PSBR savings (under case A - minimal switching from RTB) or increase the losses (under case B - substantial switching), by amounts running into several £100 million at the outset. This results from assumed take-up by older tenants who might otherwise have taken out the standard flexi-owner's mortgage, or paid the same amount from savings. But in NPV terms and in the absence of any replacement the special scheme has the opposite effect, adding to the savings, because higher take-up by the elderly reduces expenditure on management and maintenance and modernisation at very little cost in rent income forgone. But it is unrealistic to assume no replacement or additional housing benefit costs for low income families. If replacement is assumed then the PSBR benefits are almost entirely offset.

15. Ministers will wish to decide whether flexi-ownership should include a special scheme for older tenants, on the lines set out above. Such a scheme could be introduced from the start, or it could be held in reserve, to be introduced later in the light of experience with the main flexi-ownership scheme.

ELIGIBILITY FOR SOCIAL SECURITY BENEFITS

16. At the Group's last meeting, Ministers attached importance to ensuring that someone who had received the benefits of flexi-ownership should not be able to sell up and revert to being a tenant receiving assistance with his housing costs via a rent rebate. In most cases, abuse of this sort would be prevented by the housing benefit capital rule: most flexi-owners selling their homes would end

What happened when they spent the £8000

up with capital of more than £8000 and would automatically be barred from receipt of housing benefit. Such tenants might qualify for benefit eventually as their savings were eroded, though if they ran down their savings specifically to get benefit they would still be treated as possessing the capital for housing benefit purposes. As a further check against abuse in the period immediately after a tenant becomes a flexi-owner, we propose a discount repayment covenant of the sort made under RTB. This would provide for a proportion of the discount to be repaid in the case of early disposal. This approach would follow the RTB scheme, and act as an effective deterrent to deliberate abuse

17. There is a separate issue of the extent to which income support should be available to meet part of the costs of any mortgage taken out to cover the cost of flexi-ownership. Under present rules, if a flexi-owner subsequently became eligible for income support (for example through unemployment or retirement), he would be entitled to help with the interest costs of any mortgage. An existing income support recipient who becomes an owner-occupier is entitled to help with mortgage interest up to the amount he currently receives as a rent rebate. This would mean that he could become a flexi-owner with virtually all the initial cost met by the State. Ministers will wish to consider whether these arrangements are acceptable, or whether further work should be commissioned on the possibility of restricting income support payments in these circumstances.

18. A final social security issue for possible later consideration is the availability of benefit to cover service charges in flats. At present, a tenant can receive help with these charges but an owner-occupier not on income support cannot. This could act as a disincentive to flexi-ownership of flats which could significantly reduce take-up of the scheme, particularly in London where 80% of local authority tenants are in flats. On the other hand any extension of eligibility could have much wider consequences. Ministers will wish to consider whether this issue should be explored in greater detail.

AN EXPERIMENTAL SCHEME UNDER EXISTING LEGISLATION

19. At the Group's last meeting Ministers concluded that it would not be possible to legislate for a flexi-ownership scheme until the 1989-90 Session of Parliament. But we were asked to give further consideration to the possibility of running experimental schemes under existing legislation, probably in Scotland and Wales in the first instance.

20. Both the Scottish and Welsh Offices have considered the feasibility of offering flexi-ownership opportunities to at least some tenants under existing powers. The preliminary view of both Departments is that this would be possible: outlines of their proposals are attached at Annex C (Scottish Office) and Annex D (Welsh Office). However DOE lawyers consider that the powers available in England and Wales are not adequate. Clearly Ministers in the two Departments would need to be fully satisfied that they had the necessary legal powers before they could proceed. But on the assumption that definitive legal advice to this effect is forthcoming we have considered the policy implications of experimental schemes in those areas.

21. The main advantages of experimental schemes would be:

- i. they could offer an early and substantial acceleration in the shift towards owner occupation. This would be particularly relevant in Scotland, where home ownership currently stands at 49%, well below English and Welsh levels;
- ii. they would provide an opportunity to test the scheme and assess the likelihood of switching from RTB in areas where, because prices are relatively low, the financial risks would be much less than in England.

22. The main disadvantages would be:

i. tenants in other areas, eg England, would resent being excluded from the new scheme, particularly if the scheme were successfully presented as an important new right;

ii. a scheme introduced without new legislation would be constrained by the terms of existing powers and, if unsuccessful, might discredit the idea before it was properly launched.

23. Ministers will wish to decide whether the possibility of experimental schemes under existing powers should be pursued.

TIMING

24. Whether Ministers decide to introduce experimental schemes or to proceed straight to a full legislative scheme, issues of timing arise. Conventional Right-to-Buy sales are currently very buoyant, particularly in England and Wales. Some tapering down has been forecast for the rest of the current PES period and beyond. But RTB receipts at risk to loss through switching to flexi-ownership will still amount to billions of pounds in the early 1990s; and forecasts of RTB receipts have regularly proved to be pessimistic in the past. The later a new scheme is introduced, the less the potential loss of capital receipts to the Exchequer.

25. Ministers will want to consider whether to proceed quickly with a flexi-ownership scheme, or to defer introduction until RTB sales fall off.

CABINET OFFICE

2 December 1988

COMPARISON OF SHARERS OF EQUITY ACQUIRED THROUGH FLEXI-OWNERSHIP AND RENT-TO-MORTGAGE:
1987 HOUSE PRICES, RENTS AND INTEREST RATES

		Areas of Low House Prices			England Average Prices			London House Prices		
		32% RTB Discount	45% RTB Discount	60% RTB Discount	32% RTB Discount	45% RTB Discount	60% RTB Discount	32% RTB Discount	45% RTB Discount	60% RTB Discount
<u>Rent-to-Mortgage Scheme</u>	Option II									
Share of equity acquired at start		43.0	53.2	73.1	32.4	40.0	55.0	19.1	23.6	32.5
Maximum share without further payment		60.0	60.0	73.1	66.0	60.0	60.0	60.0	60.0	60.0
Years to reach maximum		17	7	nil	28	20	5	41	37	28
<u>Flexi Ownership</u>	Option I									
Share of equity acquired at start (if aged 55 or under)		51.3	64.3	79.3	44.0	57.0	72.0	35.0	48.0	63.0
Maximum share without further payment		79.3	79.3	79.3	72.0	72.0	72.0	63.0	63.0	63.0
Years to reach maximum		28	15	nil	28	15	nil	28	15	nil

SUMMARY OF FINANCIAL RESULTS

Tables I, II, and III show the financial results, on assumptions specified, of Option I with and without special terms for older tenants, and of Option II. The cash flows are shown, in cash terms, in years 1, 2, 3, 4, and 7; and the net present values (NPV) at year 1 prices. The figures refer to England and Wales except where noted.

2. Financial results are shown including and excluding partial replacement of the houses that would have become available for re-letting to new tenants by local authorities if they had not been transferred to flexi-ownership. In England two-thirds of the lost re-lets are assumed to be replaced. The replacement is by housing associations, with mixed funding and the grant rates for 1988/89.

3. Financial results are also shown excluding and including voluntary purchases of equity, over and above the minimum that is required. The amounts of voluntary equity purchase assumed are:

(a) Right-to-Buy purchasers who switched to flexi-ownership or RIM would put into voluntary equity purchase one-half of the difference between the mortgage outgoings on the flexi-ownership/RIM minimum payment and the outgoings they would have incurred to exercise RTB, increased each year in line with earnings, for the term of the mortgage.

(b) Other households would put into equity purchase one half of the difference between outgoings for flexi-ownership/RIM (mortgage outgoings and upkeep) and the rent they would have paid had they stayed as tenants.

I. OPTION I WITH SPECIAL TERMS FOR OLDER TENANTS

(£ million)

		.....Years.....					
		1	2	3	4	... 7	NPV
<u>Case A</u>							
(i)	No replacement, no voluntary equity purchase	+146	+600	+629	+688	+736	+12,746 (a)
(ii)	Includes replacement, no voluntary equity purchase	+146	+565	+481	+452	+246	+301
(iii)	Includes replacement, voluntary equity purchase at all ages	+146	+573	+511	+480	+312	+848
<u>Case B</u>							
(iv)	No replacement, no voluntary equity purchase	-1,017	-638	-551	-339	-115	+5,301 (b)
(v)	Includes replacement, no voluntary equity purchase	-1,017	-659	-633	-480	-407	-1,988
(vi)	Includes replacement, voluntary equity purchase at all ages	-996	-591	-521	-333	-155	-169 (c)

Notes: (a) No replacement but with assumed voluntary equity purchase would give +13,293

(b) No replacement but with assumed voluntary equity purchase would give +7,120

(c) If voluntary equity purchase were assumed to be one-quarter instead of one-half of the reduction in outgoings, the figure would be -1,079

II. OPTION 1 WITH NO SPECIAL TERMS FOR OLDER TENANTS

		(£ million)						
		.....Years.....						
<u>Case A</u>		1	2	3	4	...7	NPV	NPV Inclu- ding Scot- land
(i)	No replacement no voluntary equity purchase	+322	+977	+853	+870	+436	+6,757	+7,073 (a)
(ii)	Includes replacement, no voluntary equity purchase	+322	+960	+787	+658	+200	-80	+70
(iii)	Includes replacement, voluntary equity purchase at all ages	+323	+964	+799	+674	+246	+390	+561
<u>Case B</u>								
(iv)	No replacement, no voluntary equity purchase	-746	-358	-331	-214	-210	+1,182	+1,100 (b)
(v)	Includes replacement, no voluntary equity purchase	-746	-371	-377	-293	-373	-1,929	-2,085
(vii)	Includes replacement voluntary equity purchase at all ages	-730	-319	-395	-182	-184	-277	-213 (c)

Notes: (a) No replacement but with assumed voluntary equity purchase would give +7,564

(b) No replacement but with assumed voluntary equity purchase would give +2,972

(c) If voluntary equity purchase were assumed to be one-quarter instead of one half of the reduction in outgoings, the figure would be -1,149

III. OPTION II

(£ million)

Case A	Year.....					NPV	NPV Inclu- ding Scot- land
	1	2	3	4	...7		
(i) No replacement, no voluntary equity purchase	+140	+500	+436	+380	+199	+4,131	+4,174 (a)
(ii) Includes replacement, no voluntary equity purchase	+140	+492	+403	+324	+82	+348	+301
(iii) Includes replacement, voluntary equity purchase at all ages	+141	+496	+410	+337	+115	+831	+803
<u>Case B</u>							
(iv) No replacement, no voluntary equity purchase	-678	-394	-337	-270	-171	+1,779	+1,651 (b)
(v) Includes replacement, no voluntary equity purchase	-678	-399	-356	300	-234	-268	-444
(vi) Includes replacement, voluntary equity purchase at all ages	-669	-370	-309	240	-125	+834	+848 (c)

Notes: (a) No replacement but with assumed voluntary purchase of equity would give +4,676

(b) No replacement but with assumed voluntary purchase of equity would give +2,943

(c) If voluntary equity purchase were assumed to be one-quarter of the reduction in outgoings instead of one-half the figure would be +202

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ANNEX C

PROPOSED EXPERIMENTAL FLEXI-OWNERSHIP SCHEME TO BE OPERATED IN SCOTLAND BY SCOTTISH HOMES

1. The Scottish Office proposes to introduce an experimental flexi-ownership scheme under the powers available to Scottish Homes under the provisions of the Housing (Scotland) Act 1988. The scheme could begin operation during the 1989-90 financial year.
2. Scottish Homes will be a Non-Departmental Public Body, which will be formally established in December 1988 and which from 1 April 1989 will assume the functions of the Scottish Special Housing Association and the Housing Corporation in Scotland. It is designated under the Housing (Scotland) Act 1988 as an approved landlord, so that local authority and New Town tenants may elect to transfer to a Scottish Homes tenancy (under Tenants' Choice). Its tenants will however be protected tenants; hence they will retain their statutory right to buy. Scottish Homes will have very wide powers, in accordance with arrangements made by the Secretary of State, to dispose of houses which it holds and, subject to the approval of the Secretary of State and the Treasury, to give loans. Scottish Homes also has a general function of:

"Promoting owner occupation (especially by those seeking to purchase for the first time) [and] the wider ownership of housing by its occupants ..."
3. These powers are sufficiently wide to encompass a scheme on the lines described in the main paper or any variant which might be agreed (other than the special scheme for the elderly which is dependent on interaction with the benefit rules etc operated through DSS and would have to be implemented on a national basis).
4. The Secretary of State would direct/request Scottish Homes to introduce a flexi-ownership scheme for its tenants. The scope for the Scottish new towns operating a similar scheme under the Secretary of State's direction is being considered separately. The scheme would not extend to local authorities. Tenants of local authorities who wished to participate could exercise Tenants' Choice and transfer to Scottish Homes and hence become eligible. Take-up is impossible to predict with any degree of reliability but the aim would be to attract significant numbers of the 75,000 tenants inherited by Scottish Homes from the Scottish Special Housing Association.
5. Under Scottish law, transactions under the scheme would take the following form:-

a. the tenant purchases his house from Scottish Homes and finances the purchase with 100% mortgage from a building society to cover the rent-related amount (or provides that amount as a capital sum);

b. there is a further mortgage secured over the house in favour of Scottish Homes to reflect the public sector charge; and

c. the detailed conditions and arrangements within the second mortgage would deal with the amount and timing of repayments, and reflect as necessary the details of the agreed scheme (eg the effect of the increasing value of the property, repayments from resale by the ex-tenant, and arrangements for increasing purchase of "equity" and the reduction of the burden involved in the outstanding charge/mortgage).

6. Although all Scottish public sector tenants would in practice be able, directly or indirectly, to obtain access to the scheme, it would be marketed as a special Scottish Homes scheme. This could help deal with concern about premature pressure to extend the scheme to other parts of the country. Introduction of this experimental scheme would not stand in the way of the introduction in due course of a national scheme.

Scottish Office
29 November 1988

FLEXI-OWNERSHIP IN WALES USING EXISTING STATUTORY POWERS

1. The basis of the scheme would be that the Secretary of State would authorise local authorities to dispose of dwellings to tenants qualifying for the Right to Buy.

Left to their own devices, few authorities would implement flexi-ownership on a permissive basis. However the Secretary of State would request Housing for Wales to make the flexi-ownership option available to all local authority tenants transferring to registered housing associations under Tenants' Choice.

2. S32 of the Housing Act 1985 empowers a local authority to dispose of dwellings, and S32(2) provides that the disposal may be effected in any manner, while S33(1) provides that the local authority may impose such conditions as they see fit. It is believed these provisions give local authorities the ability to dispose of dwellings on the contractual basis which appears appropriate to them, including the deferral of part of the purchase price on index-linked or equity-sharing terms. S34(4) gives a wide power to the Secretary of State to consent to disposals with conditions attaching to price and discount; no difficulty is seen in such conditions extending to a share of the proceeds on subsequent disposal.

In short, it is believed that the local authority has the legal ability to dispose of dwellings on flexi-ownership terms provided they have the Secretary of State's consent; and the Secretary of State in turn has the ability to frame his consent in such a way that dwellings are disposed of on the flexi-ownership terms which he intends.

3. As to the offer of the flexi-ownership option to tenants of registered housing associations who have transferred under Tenants' Choice: S79(2) of the Housing Associations Act 1985 gives Housing for Wales power to lend to tenants of registered housing associations for the purpose of enabling them to acquire a legal estate or interest in their home. S79(4) provides that the terms of a S79 loan shall be such as the Corporation may determine, either generally or in a particular case. The discretion of Housing for Wales in this regard is subject only to the general power of the Secretary of State to give directions. It is believed that it is well within this discretion to defer repayment of the loan until the dwelling is sold; and rather than charge interest, index the capital sum in line with house prices or express it as a proportion of the equity in the dwelling.

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P 03297

PRIME MINISTER

FLEXI-OWNERSHIP AND RENTS TO MORTGAGES
[Note by the Cabinet Office, 2 December 1988]

DECISIONS

1. The last meeting of the Ministerial Group on 21 July commissioned further work by officials, with a view to producing a single scheme of flexi-ownership. You envisaged legislation in the 1989-90 session but asked officials to explore the possibility of experiments within existing powers in the meantime. This paper is the result.

2. There are still strong disagreements between Departments, particularly the Welsh Office and the Department of the Environment, reflecting the views of their Secretaries of State. Both Mr Walker and Mr Rifkind are keen to launch experiments within their existing powers, but they have differing schemes in mind: in particular, Mr Walker wants special concessions for the elderly whereas Mr Rifkind is opposed to such concessions. Mr Moore is likely to support the special scheme for the elderly which is the only part of the package which promises to cut the housing benefit caseload. Mr Ridley however is likely to be opposed to special provision for the elderly and also to experiments within existing powers, particularly in Wales (his Department's legal advisers are in disagreement with the Welsh Office's legal advisers). More generally, Mr Ridley is likely to be unenthusiastic about any early action on flexi-ownership, not least because of the possible effect on Right-to-Buy receipts. We do not know the view of Treasury Ministers, but Treasury officials share Mr Ridley's concern about RTB receipts.

But they may want back on level 2.

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3. Despite these disagreements, the official group have made quite a lot of progress in agreeing what the main features of a single flexi-ownership scheme would be, if one were to be introduced. You may wish to begin by inviting the Group to endorse the agreed features (paragraph 2 of the main note) and by dealing with the few outstanding issues on which Ministerial decisions are needed, highlighted for convenience in the covering paper. These are:

i. how generous the scheme should be. This relates mainly to the size of the free initial discount and to a lesser point about the ceiling on equity bonus points. Option I (Welsh Office) is more generous and could be expected to maximise take-up. Option II (Department of the Environment) is designed to minimise switching from full Right-to-Buy (RTB) and to reduce PSBR costs;

ii. whether there should be a special scheme for older tenants. The Welsh Office proposal would allow such tenants to be flexi-owners without taking out a mortgage. Again this would encourage take-up, but has PSBR costs.

4. You may then wish to turn to the question of whether there should be experiments in Scotland and Wales. Mr Ridley may well be opposed to legislation in 1989-90 on the grounds that a national scheme could put billions of pounds of Right-to-Buy receipts at risk. Mr Walker on the other hand is likely to attach great importance to pressing ahead with flexi-ownership as quickly as possible. The best approach may be to agree to early experimental schemes in Scotland and Wales, within existing powers, but only on the understanding that the Secretaries of State:

i. agree to bear any net costs within the Scottish and Welsh expenditure blocks;

ii. satisfy themselves beyond reasonable doubt that their existing legal powers are adequate. The best course may well be for them to go to the Law Officers in view of the differences between Departmental lawyers. If either of them

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does not have the legal powers for sure, he will not be able to proceed. It seems unlikely that existing legislation would allow the special scheme for the elderly.

If the Group agrees that there should be experiments, you may wish to defer a final decision about whether a national scheme should be introduced in a Bill in 1989-90 or a later Session of this Parliament.

BACKGROUND

5. The Ministerial meeting on 21 July (Mr Gray's letter of 22 July to Mr Ridley's Private Secretary) considered three alternative flexi-ownership/Rents to Mortgages schemes. You concluded that there was a strong case for a new initiative on these lines during this Parliament. You asked us to do further work with a view to producing a single scheme, building on the Welsh Office flexi-ownership proposal. We were also asked to consider how to ensure that flexi-owners gave up the right to claim housing benefit. Finally, we were asked to explore what could be achieved under existing legislation.

MAIN ISSUES

A single scheme

6. The agreed features of the scheme are set out in paragraph 2 of the Note by Officials. If you are content, you will probably want to invite the Group to endorse them.

How generous the scheme should be

7. The two options are:

- i. option I (Welsh Office), under which the flexi-owner would buy the proportion of the house which he could finance by converting his rent into a mortgage, and be given a free discount equal to his RTB discount minus 10 percentage points (up to a maximum of 50%);

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ii. option II (DOE), under which the flexi-owner who paid X% of the RTB discounted price of his house would get an initial discount equal to X% of his RTB discount.

8. The arguments for and against the two options are set out in the Note by Officials. The key points are:

i. option I is more generous, and might therefore encourage greater take up. But it could also encourage switching from full RTB, at substantial cost in terms of receipts forgone. Option II reduces the PSBR risks;

ii. option I would give most tenants a greater share in their houses, and therefore a substantial step towards full home ownership. In contrast under option II many tenants in London and the South East would be offered only a minority share in their houses;

iii. option I could most easily be extended to provide a special scheme for older tenants, either at the outset or later on. Any such scheme under option II would look much more arbitrary.

9. There are also lesser differences between the options in the ceiling on subsequent bonus points. Option I (Welsh Office) would only place a ceiling on the total free equity which the flexi-owner would receive. Option II (DOE) would include the initial stake which the flexi-owner purchased with his mortgage within the ceiling, thereby producing a somewhat perverse incentive to flexi-owners not to buy any larger stake than they were required to with their own money.

10. All these arguments appear to favour option I (Welsh Office). Even if Ministers were concerned about the PSBR costs under that option, the best course might be to adopt its basic structure but reduce the initial discount, for instance, to the Right-to-Buy discount minus 15%, or even 20%, rather than the 10% proposed by Mr Walker. But Mr Ridley is likely to resist this conclusion. You will want to consider whether the Ministerial group can agree on option I. One solution may be to allow Mr Walker to conduct an experiment within his existing powers (see below).

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Special scheme for the older tenants

11. The arguments for and against a special scheme for the older tenants are set out in paragraphs 12 and 13 of the Note by Officials. The key points are:

i. it would open flexi-ownership to many more tenants over retirement age who could not or were unwilling to make mortgage payments. It is the only part of the revised proposals that could substantially cut the housing benefit caseload;

ii. it would have PSBR costs, at least as compared with a flexi-ownership scheme without special concessions. New figures which were not available in July show that a surprising number of older tenants have been exercising their existing Right-to-Buy. Many older tenants might well take up flexi-ownership even without a special scheme;

iii. Mr Ridley and Mr Rifkind have doubts about the wisdom of encouraging older people with very limited resources to become house owners. They fear that such people might be incapable of managing repair and maintenance.

12. The balance of advantage is difficult to judge. However, it seems unlikely that the special scheme for the elderly could be introduced under existing legislation: that is certainly the view of the Scottish Office. You may therefore want to agree to experimental schemes, on the basis of option I but without special concessions for older tenants. You could then judge, in the light of take up by older tenants, whether it would be right to build special concessions into any legislative flexi-ownership scheme.

Possible abuse of social security benefits

13. The Note by Officials sets out the existing safeguards against abuse (paragraphs 16-18). The safeguards against flexi-owners selling up and then going back onto housing benefit seem reasonably comprehensive. But there are two areas where further work may be needed:

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i. income support for mortgage interest payments. A flexi-owner who subsequently becomes eligible for income support (eg. through unemployment) would be eligible for help with interest (not capital) payments under present rules. An existing income support recipient would also be allowed to become a flexi-owner and receive help with his interest payments up to the level of his rent rebate. Changes in the income support system will be needed if these features are to be changed;

ii. the non-availability of benefit for service charges in flats. This could act as a disincentive for tenants in flats (80% of tenants in London) to become flexi-owners. But extension of eligibility could have much wider consequences.

You will wish to decide whether further work is needed in either or both of these areas.

TIMING AND AN EXPERIMENTAL SCHEME

14. You will want to consider the timing of introduction of any flexi-ownership scheme. It is clear that a full national scheme would involve some risk to the very large RTB receipts which have been forecast over the next few years in the Autumn Statement. On the other hand Mr Walker and Mr Rifkind are very keen to get ahead. The best approach may therefore be to agree to experimental schemes in Scotland and Wales, on the basis suggested above (option I but without a special scheme for the elderly). You may want to make agreement to experiments conditional on two points:

i. that the Secretaries of State agree to bear any net costs within the Scottish and Welsh expenditure blocks;

ii. that they satisfy themselves that the existing legal powers are adequate. DOE and Welsh Office lawyers disagree on this point. This dispute is likely to have to be referred to the Law Officers. If the answer is unfavourable Mr Walker will not be able to proceed. Scottish law is different, and

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the Scottish Office appear confident that their scheme could go ahead in any case, although here again Mr Rifkind must be satisfied that the legal position is sound.

VIEWS OF OTHER MINISTERS

15. Mr Walker will argue for option I and a special scheme for older tenants. He will want to proceed with an experimental scheme and legislation as quickly as possible. Mr Ridley will argue for option II and no special scheme for the elderly. He is unlikely to support experimental schemes, and will probably want to delay legislation until RTB receipts start declining from their present very high levels. Mr Major also seems likely to want to adopt a cautious approach, particularly on timing, to reduce the risk of substantial PSBR and public expenditure costs. Mr Moore is likely to be most concerned with the special scheme for the elderly, which is the only part of the package which promises to cut the housing benefit caseload.

R.T.J.

R T J WILSON
Cabinet Office
2 December 1988

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PRIME MINISTER

FLEXI-OWNERSHIP: MEETING ON 8 DECEMBER

At the last meeting of Ministers in July, you commissioned further work on the various flexi-ownership and rents to mortgages schemes. Next Thursday's meeting is to review progress.

Richard Wilson has had a difficult job in trying to pull the different threads together. This reflects the fact that there are still major disagreements and tensions between the Departments (and Ministers). He has managed to produce an agreed report, narrowing down the issues for decision.

So the papers enclosed are:

Flag A - the agreed paper prepared by the Cabinet Office;

Flag B - Richard Wilson's brief on that.

RLCC.

PAUL GRAY

NSA

2 December 1988

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PA

CABINET OFFICE

70 Whitehall London SW1A 2AS Telephone 01-270

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P 03295

P Gray Esq
10 Downing Street

2 December 1988

Dear Paul,

FLEXI-OWNERSHIP AND RENTS TO MORTGAGES

I attach a further paper by officials on this subject for discussion in the small group of Ministers at its next meeting on Thursday 8 December. The paper has been prepared in consultation with the Departments represented on the group, and has been cleared with them.

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 Security, the Chief Secretary and the Minister for Housing and Planning, and to Brian Griffiths.

Yours ever,

Richard

R T J WILSON

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HOUSING POLICY

FLEXI-OWNERSHIP AND RENTS TO MORTGAGES

Note by the Cabinet Office

1. At the Group's meeting on 21 July we were asked to do further work on a revised flexi-ownership scheme, drawing on the three sets of proposals which the Group had considered, with a view to producing a single scheme. We were also asked to consider how to ensure that flexi-owners gave up the right to claim housing benefit at a later date; and to explore what could be achieved under existing legislation. The attached Note by Officials records the outcome of this further work.

A Single Scheme

2. The official group have been able to agree many of the features of a single flexi-ownership scheme. These are set out in paragraph 2 of the Note by Officials. Ministers are invited to endorse them as the basis for any flexi-ownership scheme.

3. There are however a number of key issues on which Ministerial decisions are needed:

i. how generous the scheme should be. This affects in particular the level of the free initial discount to be offered to flexi-owners, and the maximum number of bonus points they can earn by staying in the house. The issues and their financial effects are explored in paragraphs 4-10 of the attached Note;

ii. whether there should be a special scheme for older tenants, under which those above retirement age would not be required to convert their rents into mortgages in order to become flexi-owners. The implications of such a scheme and the financial effects are explored in paragraphs 11-14 of the attached Note;

iii. whether the existing safeguards to prevent possible abuse of social security benefits set out in paragraphs 16-18 of the Note, are sufficient.

Next Steps

4. If Ministers want to proceed with a scheme, they will wish to consider the best timing for its introduction. Capital receipts from conventional Right-to-Buy (RTB) sales are buoyant at the moment: careful handling of introduction would be needed to minimise the potential loss to the Exchequer. One possibility, raised at the last Ministerial meeting, would be to have experimental schemes in Scotland and Wales under existing legislation. This is explored in paragraphs 19 to 22 of the Note.

Conclusions

5. Ministers are invited to decide these issues and the basis on which further work should proceed.

Cabinet Office

2 December 1988

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HOUSING POLICY

FLEXI-OWNERSHIP AND RENTS TO MORTGAGES

Note by Officials

1. This paper reflects the outcome of further work by officials, following the Ministerial Group's meeting on 21 July. In the interests of readability we refer to 'houses' rather than 'dwellings'; but any flexi-ownership scheme would also cover flats.

AGREED FEATURES OF A SINGLE SCHEME

2. The features which we have been able to agree are as follows:

i. eligibility. This would be the same as for Right-to-Buy (RTB). The normal requirement would be 2 years as a tenant. A tenant who exercised his flexi-ownership right would become the legal owner of his house, subject to certain legal charges on it;

ii. flexi-owner's mortgage. A flexi-owner would cease to pay rent, but would be required to take out a normal commercial mortgage (secured by a charge on the house) with repayments broadly equal to his current rent, less £5 per week to allow for maintenance, or make an equivalent payment from savings. He could of course take out a larger mortgage or pay more from savings if he wished. The capital sum raised would be used to buy a proportion of the house at its current market price;

iii. free initial discount. In addition the tenant would be given an initial discount, related to but less than the Right-to-Buy discount, so that he would own a proportion of the house free from any legal charge on the property from the outset. The size of this discount is one of the issues which needs to be decided (see below);

- iv. public sector charge. The public sector would retain a charge on the property, expressed as a percentage of the market price, which would be equal to the remaining equity in the dwelling;
- v. free bonus points. The flexi-owner would be given one percentage point of additional equity for each year he continued to live in the house, subject to a maximum ceiling. This would be matched by a reduction in the public sector charge. The ceiling on these points is a second issue to be decided (see below);
- vi. purchases of further equity. The flexi-owner would have a right to buy out some or all of the remaining public charge on his house at any time, at the market price at that time;
- vii. repair and maintenance. The flexi-owner or his family would be responsible for repair and maintenance of the property, and would covenant to keep it in good repair. Heirs would be required to maintain the covenant;
- viii. repayment of public sector charge. When the flexi-owner or his heirs sold the property the remaining public sector charge as it then stood would have to be repaid, as a percentage of the proceeds.
3. Ministers are invited to endorse these proposals as the basis for a possible flexi-ownership scheme.

INITIAL DISCOUNT FOR FLEXI-OWNERS

4. There are many different ways in which the free initial discount could be calculated, and a maximum imposed on the number of subsequent bonus equity points. The two main options put forward by Departments are:

i. option I, under which the flexi-owner would buy a proportion of the property, calculated at the full market price, to which would be added an initial discount, equal to his Right-to-Buy discount minus 10 percentage points. He would subsequently receive one percentage point of additional equity every year until the total free equity (initial discount plus bonus points) reached the maximum RTB discount minus 10% (50% for a house);

ii. option II, under which a flexi-owner who paid X% of the Right-to-Buy discounted price for his house would get X% of the equity. This would mean that he got X% of his RTB discount. He would subsequently receive one percentage point of additional equity every year until his total stake in the house (including the stake he had originally paid for) reached the maximum RTB discount (60% for a house).

The implications of these two options for the equity stake of typical flexi-owners are shown in Annex A.

5. Option I, under which the tenant's initial free discount is equal to his Right-to-Buy (RTB) discount minus 10 percentage points, has the following main advantages:

i. it is reasonably generous, which might encourage substantial take-up by tenants who cannot afford RTB. It offers most tenants a reasonable share of their properties, and therefore a substantial step towards full ownership, even in high price areas like London and the South East;

ii. it can readily be extended into a special scheme for older tenants, either immediately or at some future date. They would be exempted from the requirement to take out a flexi-owner's mortgage. Their initial equity share would simply be the initial free discount (RTB minus 10%).

6. Option I's main disadvantages are:

i. it could, because of its relative generosity, encourage more tenants than under option II to switch from full RTB to flexi-ownership;

ii. its fairness could be criticised, both as between flexi-owners and as compared with RTB. Flexi-owners in different areas would all take out similar mortgages (because rents do not vary greatly across the country), but those in high price areas would be credited with a much higher capital stake in their houses (because the free discount is expressed as a percentage of the house price and prices vary far more than rents). In contrast under RTB the tenant in a high price area has to take out a much larger mortgage than the tenant in a low price area. Existing RTB purchasers and the general public might resent the element of give-away inherent in this option.

7. Option II, under which the tenant's initial free discount is a proportion of his RTB discount, equal to the proportion of the RTB discounted price which he pays, would have the following main advantages:

i. it is less generous than option I, and this might reduce switching from conventional RTB. Full home ownership would therefore be encouraged, and loss of RTB receipts reduced;

ii. it is consistent with RTB, and arguably simpler to explain than option I. A tenant paying X% of the RTB price gets X% of the equity in his house. It is also fairer as between flexi-owners: two tenants with a 50% RTB discount and taking out a £5,000 mortgage would each get a £10,000 stake in their properties, even if one lived in the South East and one in the North of England.

8. Option II's main disadvantages are:

i. it might not be generous enough to generate substantial take-up among those who could not afford RTB. This might particularly apply in Scotland, where there is a strong tradition of renting from the public sector. But there could also be problems in high-price areas, because most tenants in these areas would be credited with only a minority stake in their houses. Moreover, the inclusion of the stake initially purchased within the 60% ceiling on bonus points would restrict the maximum discount for flexi-owners, particularly in areas where house prices were low;

ii. although there could be a special scheme for older tenants, as with option I, such a scheme would fit less well with the structure of option II and so could appear arbitrary.

9. The PSBR implications of option I (both with and without special terms for the elderly) and option II are shown in Annex B. Ministers should note that the results of the new financial appraisal are generally less favourable than the figures provided in our July report, for the following main reasons:

i. higher forecast receipts from RTB reflecting the latest actual figures, which were not available in July. The new figures are consistent with PES assumptions;

ii. higher assumed take up of RTB by older tenants reflecting an analysis of actual RTB sales which was not available in July;

iii. revised RPI and house price inflation assumptions provided by the Treasury in October.

Ministers should note that the assumptions are purely illustrative and represent only a series of guesses about what might happen. The calculations are very sensitive to what assumptions are made and should not be interpreted as forecasts of what is likely to happen in practice.

10. Case A assumes that tenants will be heavily influenced by the prospect of capital gains from full ownership, resulting in minimal switching from RTB. On this assumption, both schemes show substantial PSBR savings in the early years. Case B assumes that tenants will be more concerned about short-term effects on cash in hand, resulting in higher switching. On that assumption both options show heavy PSBR costs in the early years. In the longer term, the figures are particularly sensitive to the assumptions made, and the results vary between large gains and significant losses. These figures suggest that, while there is a risk of PSBR costs on certain assumptions, the schemes cannot be appraised financially with sufficient certainty to provide decisive arguments for or against proceeding. A great deal depends on behavioural effects which cannot be predicted with any confidence. Ministers will need to consider whether a scheme on the lines of either option I or option II is justified in terms of its other benefits, and whether these outweigh the risk of financial costs. The precise details of either option could be adjusted to make it more or less generous to flexi-owners. The choice between the options depends to some extent on whether Ministers want a special scheme for older tenants, as discussed in the following section.

A SPECIAL SCHEME FOR OLDER TENANTS

11. At the Group's last meeting Ministers saw some strong attractions in a special arrangement for tenants above retirement age, which would allow them to become flexi-owners without taking out a mortgage or making an equivalent capital payment. Under option I tenants over retirement age would simply get the initial flexi-ownership discount (RTB minus 10%) as their equity share. Tenants within 5 years of retirement age would be subject to a reduced flexi-owner's mortgage on a sliding scale (100%, 80%, 60%, 40% and 20% of the full mortgage in successive years up to retirement) to avoid any incentive to defer becoming flexi-owners. Under option II a similar scheme could be proposed to ensure that the same group of older tenants would get, say, an automatic 50% discount, with similar arrangements to avoid a cliff-edge and to avoid any incentive for them to defer becoming flexi-owners. In both cases the public sector charge would be higher than for a younger purchaser on a similar

discount: the whole of the value of the house not covered by the discount entitlement would be covered by the public sector charge.

12. The main advantages of such a scheme for the elderly are:

i. it would open flexi-ownership to all tenants over retirement age who thought they could afford the cost of upkeep. Take-up is hard to predict, but under Case A we have assumed that 50% of tenants in the age group on full housing benefit and 60% of those on the taper would become flexi-owners. It would also help many older tenants with incomes above benefit levels who would find it difficult to get mortgages;

ii. it is the only part of the revised flexi-ownership proposals which could substantially cut the caseload of the rent rebate system, reducing the dependency culture and the poverty trap. Many flexi-owners would however remain eligible for community charge rebates;

iii. many more elderly tenants would have the chance to own significant assets, which they could pass on to their heirs, potentially reducing dependency in the next generation.

13. 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 relatives. That could increase the number of elderly people in poor housing, with eventual pressure for Government assistance;

ii. the main financial benefits would accrue to the heirs of older tenants rather than to the tenants themselves. It is not obvious why the heirs should benefit from such a quickly realisable capital gain, and this could be difficult to defend;

iii. it would remove from the public sector those dwellings most likely to be available for re-letting in the short to medium

term. This could exacerbate the problems associated with homelessness, and increase pressure to build new dwellings for letting at affordable rents.

These disadvantages would apply to any scheme designed to encourage wider home ownership among older tenants: they are not specific to the scheme set out in paragraph 11 above.

14. The PSBR implications of adding a special scheme for older tenants to the option I flexi-ownership scheme are shown in Annex B. In the early years the special concessions could reduce the PSBR savings (under case A - minimal switching from RTB) or increase the losses (under case B - substantial switching), by amounts running into several £100 million at the outset. This results from assumed take-up by older tenants who might otherwise have taken out the standard flexi-owner's mortgage, or paid the same amount from savings. But in NPV terms and in the absence of any replacement the special scheme has the opposite effect, adding to the savings, because higher take-up by the elderly reduces expenditure on management and maintenance and modernisation at very little cost in rent income forgone. But it is unrealistic to assume no replacement or additional housing benefit costs for low income families. If replacement is assumed then the PSBR benefits are almost entirely offset.

15. Ministers will wish to decide whether flexi-ownership should include a special scheme for older tenants, on the lines set out above. Such a scheme could be introduced from the start, or it could be held in reserve, to be introduced later in the light of experience with the main flexi-ownership scheme.

ELIGIBILITY FOR SOCIAL SECURITY BENEFITS

16. At the Group's last meeting, Ministers attached importance to ensuring that someone who had received the benefits of flexi-ownership should not be able to sell up and revert to being a tenant receiving assistance with his housing costs via a rent rebate. In most cases, abuse of this sort would be prevented by the housing benefit capital rule: most flexi-owners selling their homes would end

up with capital of more than £8000 and would automatically be barred from receipt of housing benefit. Such tenants might qualify for benefit eventually as their savings were eroded, though if they ran down their savings specifically to get benefit they would still be treated as possessing the capital for housing benefit purposes. As a further check against abuse in the period immediately after a tenant becomes a flexi-owner, we propose a discount repayment covenant of the sort made under RTB. This would provide for a proportion of the discount to be repaid in the case of early disposal. This approach would follow the RTB scheme, and act as an effective deterrent to deliberate abuse

17. There is a separate issue of the extent to which income support should be available to meet part of the costs of any mortgage taken out to cover the cost of flexi-ownership. Under present rules, if a flexi-owner subsequently became eligible for income support (for example through unemployment or retirement), he would be entitled to help with the interest costs of any mortgage. An existing income support recipient who becomes an owner-occupier is entitled to help with mortgage interest up to the amount he currently receives as a rent rebate. This would mean that he could become a flexi-owner with virtually all the initial cost met by the State. Ministers will wish to consider whether these arrangements are acceptable, or whether further work should be commissioned on the possibility of restricting income support payments in these circumstances.

18. A final social security issue for possible later consideration is the availability of benefit to cover service charges in flats. At present, a tenant can receive help with these charges but an owner-occupier not on income support cannot. This could act as a disincentive to flexi-ownership of flats which could significantly reduce take-up of the scheme, particularly in London where 80% of local authority tenants are in flats. On the other hand any extension of eligibility could have much wider consequences. Ministers will wish to consider whether this issue should be explored in greater detail.

AN EXPERIMENTAL SCHEME UNDER EXISTING LEGISLATION

19. At the Group's last meeting Ministers concluded that it would not be possible to legislate for a flexi-ownership scheme until the 1989-90 Session of Parliament. But we were asked to give further consideration to the possibility of running experimental schemes under existing legislation, probably in Scotland and Wales in the first instance.

20. Both the Scottish and Welsh Offices have considered the feasibility of offering flexi-ownership opportunities to at least some tenants under existing powers. The preliminary view of both Departments is that this would be possible: outlines of their proposals are attached at Annex C (Scottish Office) and Annex D (Welsh Office). However DOE lawyers consider that the powers available in England and Wales are not adequate. Clearly Ministers in the two Departments would need to be fully satisfied that they had the necessary legal powers before they could proceed. But on the assumption that definitive legal advice to this effect is forthcoming we have considered the policy implications of experimental schemes in those areas.

21. The main advantages of experimental schemes would be:

- i. they could offer an early and substantial acceleration in the shift towards owner occupation. This would be particularly relevant in Scotland, where home ownership currently stands at 49%, well below English and Welsh levels;
- ii. they would provide an opportunity to test the scheme and assess the likelihood of switching from RTB in areas where, because prices are relatively low, the financial risks would be much less than in England.

22. The main disadvantages would be:

i. tenants in other areas, eg England, would resent being excluded from the new scheme, particularly if the scheme were successfully presented as an important new right;

ii. a scheme introduced without new legislation would be constrained by the terms of existing powers and, if unsuccessful, might discredit the idea before it was properly launched.

23. Ministers will wish to decide whether the possibility of experimental schemes under existing powers should be pursued.

TIMING

24. Whether Ministers decide to introduce experimental schemes or to proceed straight to a full legislative scheme, issues of timing arise. Conventional Right-to-Buy sales are currently very buoyant, particularly in England and Wales. Some tapering down has been forecast for the rest of the current PES period and beyond. But RTB receipts at risk to loss through switching to flexi-ownership will still amount to billions of pounds in the early 1990s; and forecasts of RTB receipts have regularly proved to be pessimistic in the past. The later a new scheme is introduced, the less the potential loss of capital receipts to the Exchequer.

25. Ministers will want to consider whether to proceed quickly with a flexi-ownership scheme, or to defer introduction until RTB sales fall off.

CABINET OFFICE

2 December 1988

COMPARISON OF SHARERS OF EQUITY ACQUIRED THROUGH FLEXI-OWNERSHIP AND RENT-TO-MORTGAGE:
1987 HOUSE PRICES, RENTS AND INTEREST RATES

		Areas of Low House Prices			England Average Prices			London House Prices		
		32% RTB Discount	45% RTB Discount	60% RTB Discount	32% RTB Discount	45% RTB Discount	60% RTB Discount	32% RTB Discount	45% RTB Discount	60% RTB Discount
<u>Rent-to-Mortgage Scheme</u>	Option II									
Share of equity acquired at start		43.0	53.2	73.1	32.4	40.0	55.0	19.1	23.6	32.5
Maximum share without further payment		60.0	60.0	73.1	66.0	60.0	60.0	60.0	60.0	60.0
Years to reach maximum		17	7	nil	28	20	5	41	37	28
<u>Flexi Ownership</u>	Option I									
Share of equity acquired at start (if aged 55 or under)		51.3	64.3	79.3	44.0	57.0	72.0	35.0	48.0	63.0
Maximum share without further payment		79.3	79.3	79.3	72.0	72.0	72.0	63.0	63.0	63.0
Years to reach maximum		28	15	nil	28	15	nil	28	15	nil

SUMMARY OF FINANCIAL RESULTS

Tables I, II, and III show the financial results, on assumptions specified, of Option I with and without special terms for older tenants, and of Option II. The cash flows are shown, in cash terms, in years 1, 2, 3, 4, and 7; and the net present values (NPV) at year 1 prices. The figures refer to England and Wales except where noted.

2. Financial results are shown including and excluding partial replacement of the houses that would have become available for re-letting to new tenants by local authorities if they had not been transferred to flexi-ownership. In England two-thirds of the lost re-lets are assumed to be replaced. The replacement is by housing associations, with mixed funding and the grant rates for 1988/89.

3. Financial results are also shown excluding and including voluntary purchases of equity, over and above the minimum that is required. The amounts of voluntary equity purchase assumed are:

(a) Right-to-Buy purchasers who switched to flexi-ownership or RTM would put into voluntary equity purchase one-half of the difference between the mortgage outgoings on the flexi-ownership/RTM minimum payment and the outgoings they would have incurred to exercise RTB, increased each year in line with earnings, for the term of the mortgage.

(b) Other households would put into equity purchase one half of the difference between outgoings for flexi-ownership/RTM (mortgage outgoings and upkeep) and the rent they would have paid had they stayed as tenants.

I. OPTION I WITH SPECIAL TERMS FOR OLDER TENANTS

		(£ million)					
		.....Years.....					
		1	2	3	4	... 7	NPV
<u>Case A</u>							
(i)	No replacement, no voluntary equity purchase	+169	+641	+677	+750	+ 84	+12,746 (a)
(ii)	Includes replacement, no voluntary equity purchase	+169	+604	+534	+504	+331	+301
(iii)	Includes replacement, voluntary equity purchase at all ages	+169	+612	+554	+533	+402	+848
<u>Case B</u>							
(iv)	No replacement, no voluntary equity purchase	-1,104	-694	-593	-356	-75	+5,301 (b)
(v)	Includes replacement, no voluntary equity purchase	-1,104	-717	-679	-504	-381	-1,988
(vi)	Includes replacement, voluntary equity purchase at all ages	-1,083	-647	-562	-351	-112	-169 (c)

Notes: (a) No replacement but with assumed voluntary equity purchase would give +13,293

(b) No replacement but with assumed voluntary equity purchase would give +7,120

(c) If voluntary equity purchase were assumed to be one-quarter instead of one-half of the reduction in outgoings, the figure would be -1,079

II. OPTION I WITH NO SPECIAL TERMS FOR OLDER TENANTS

		(£ million)						
		.....Years.....						
<u>Case A</u>		1	2	3	4	...7	NPV	NPV Inclu- ding Scot- land
(i)	No replacement no voluntary equity purchase	+397	+1,084	+950	+862	+509	+6,757 (a)	+7,073
(ii)	Includes replacement, no voluntary equity purchase	+397	+1,066	+881	+744	+263	+15	-17
(iii)	Includes replacement, voluntary equity purchase at all ages	+398	+1,070	+893	+762	+312	+486	n.a.
<u>Case B</u>								
(iv)	No replacement, no voluntary equity purchase	-788	-354	-328	-204	-202	+1,182 (b)	+1,100
(v)	Includes replacement, no voluntary equity purchase	-788	-367	-376	-285	-371	-1,929	-2,085
(vi)	Includes replacement voluntary equity purchase at all ages	-772	-314	-389	-168	-165	-276 (c)	n.a.

- Notes: (a) No replacement but with assumed voluntary equity purchase would give +7,228
- (b) No replacement but with assumed voluntary equity purchase would give +2,835
- (c) If voluntary equity purchase were assumed to be one-quarter instead of one half of the reduction in outgoings, the figure would be -1,103

III. OPTION II

(£ million)

Case A	.....Year.....					NPV	NPV Inclu- ding Scot- land
	1	2	3	4	...7		
(i) No replacement, no voluntary equity purchase	+177	+556	+486	+428	+238	+4,131 (a)	+4,174
(ii) Includes replacement, no voluntary equity purchase	+177	+547	+452	+370	+116	+348	+301
(iii) Includes replacement, voluntary equity purchase at all ages	+178	+551	+460	+383	+152	+831	n.a.
<u>Case B</u>							
(iv) No replacement, no voluntary equity purchase	-711	-397	-340	-266	-165	+1,779 (b)	+1,651
(v) Includes replacement, no voluntary equity purchase	-711	-402	-359	297	-231	-268	-443
(vi) Includes replacement, voluntary equity purchase at all ages	-702	-373	-309	231	-110	+834 (c)	

Notes: (a) No replacement but with assumed voluntary purchase of equity would give +4,614

(b) No replacement but with assumed voluntary purchase of equity would give +2,881

(c) If voluntary equity purchase were assumed to be one-quarter of the reduction in outgoings instead of one-half the figure would be +283

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ANNEX C

PROPOSED EXPERIMENTAL FLEXI-OWNERSHIP SCHEME TO BE OPERATED IN SCOTLAND BY SCOTTISH HOMES

1. The Scottish Office proposes to introduce an experimental flexi-ownership scheme under the powers available to Scottish Homes under the provisions of the Housing (Scotland) Act 1988. The scheme could begin operation during the 1989-90 financial year.
2. Scottish Homes will be a Non-Departmental Public Body, which will be formally established in December 1988 and which from 1 April 1989 will assume the functions of the Scottish Special Housing Association and the Housing Corporation in Scotland. It is designated under the Housing (Scotland) Act 1988 as an approved landlord, so that local authority and New Town tenants may elect to transfer to a Scottish Homes tenancy (under Tenants' Choice). Its tenants will however be protected tenants; hence they will retain their statutory right to buy. Scottish Homes will have very wide powers, in accordance with arrangements made by the Secretary of State, to dispose of houses which it holds and, subject to the approval of the Secretary of State and the Treasury, to give loans. Scottish Homes also has a general function of:

"Promoting owner occupation (especially by those seeking to purchase for the first time) [and] the wider ownership of housing by its occupants ..."
3. These powers are sufficiently wide to encompass a scheme on the lines described in the main paper or any variant which might be agreed (other than the special scheme for the elderly which is dependent on interaction with the benefit rules etc operated through DSS and would have to be implemented on a national basis).
4. The Secretary of State would direct/request Scottish Homes to introduce a flexi-ownership scheme for its tenants. The scope for the Scottish new towns operating a similar scheme under the Secretary of State's direction is being considered separately. The scheme would not extend to local authorities. Tenants of local authorities who wished to participate could exercise Tenants' Choice and transfer to Scottish Homes and hence become eligible. Take-up is impossible to predict with any degree of reliability but the aim would be to attract significant numbers of the 75,000 tenants inherited by Scottish Homes from the Scottish Special Housing Association.
5. Under Scottish law, transactions under the scheme would take the following form:-

a. the tenant purchases his house from Scottish Homes and finances the purchase with 100% mortgage from a building society to cover the rent-related amount (or provides that amount as a capital sum);

b. there is a further mortgage secured over the house in favour of Scottish Homes to reflect the public sector charge; and

c. the detailed conditions and arrangements within the second mortgage would deal with the amount and timing of repayments, and reflect as necessary the details of the agreed scheme (eg the effect of the increasing value of the property, repayments from resale by the ex-tenant, and arrangements for increasing purchase of "equity" and the reduction of the burden involved in the outstanding charge/mortgage).

6. Although all Scottish public sector tenants would in practice be able, directly or indirectly, to obtain access to the scheme, it would be marketed as a special Scottish Homes scheme. This could help deal with concern about premature pressure to extend the scheme to other parts of the country. Introduction of this experimental scheme would not stand in the way of the introduction in due course of a national scheme.

Scottish Office
29 November 1988

FLEXI-OWNERSHIP IN WALES USING EXISTING STATUTORY POWERS

1. The basis of the scheme would be that the Secretary of State would authorise local authorities to dispose of dwellings to tenants qualifying for the Right to Buy.

Left to their own devices, few authorities would implement flexi-ownership on a permissive basis. However the Secretary of State would request Housing for Wales to make the flexi-ownership option available to all local authority tenants transferring to registered housing associations under Tenants' Choice.

2. S32 of the Housing Act 1985 empowers a local authority to dispose of dwellings, and S32(2) provides that the disposal may be effected in any manner, while S33(1) provides that the local authority may impose such conditions as they see fit. It is believed these provisions give local authorities the ability to dispose of dwellings on the contractual basis which appears appropriate to them, including the deferral of part of the purchase price on index-linked or equity-sharing terms. S34(4) gives a wide power to the Secretary of State to consent to disposals with conditions attaching to price and discount; no difficulty is seen in such conditions extending to a share of the proceeds on subsequent disposal.

In short, it is believed that the local authority has the legal ability to dispose of dwellings on flexi-ownership terms provided they have the Secretary of State's consent; and the Secretary of State in turn has the ability to frame his consent in such a way that dwellings are disposed of on the flexi-ownership terms which he intends.

3. As to the offer of the flexi-ownership option to tenants of registered housing associations who have transferred under Tenants' Choice: S79(2) of the Housing Associations Act 1985 gives Housing for Wales power to lend to tenants of registered housing associations for the purpose of enabling them to acquire a legal estate or interest in their home. S79(4) provides that the terms of a S79 loan shall be such as the Corporation may determine, either generally or in a particular case. The discretion of Housing for Wales in this regard is subject only to the general power of the Secretary of State to give directions. It is believed that it is well within this discretion to defer repayment of the loan until the dwelling is sold; and rather than charge interest, index the capital sum in line with house prices or express it as a proportion of the equity in the dwelling.

CONFIDENTIAL

P 03294

From: R T J Wilson

2 December 1988

MR GRAY

HOUSING SUBSIDY FOLLOWING LARGE-SCALE DISPOSALS OF STOCK

You asked for advice on Mr Ridley's minute of 24 November to the Prime Minister, responding to your letter of 31 October to his Private Secretary.

BACKGROUND

2. This correspondence is concerned with the effect on housing subsidy when local authorities sell council houses. It has arisen from plans by some councils to dispose of their whole housing stock. If this happened under the existing housing subsidy system the results could be anomalous. This is because subsidy is based on authorities' historic entitlements, not on their current financial needs. Some authorities could continue to receive subsidy after a disposal even when there was no remaining expenditure to support. Others could receive no subsidy even though the proceeds of sale were insufficient to pay off all the outstanding debt.

3. The position would be different under the new ring-fenced financial regime for housing which is to be introduced in 1990/91. Under that system, the Exchequer would meet any deficit on the account (subject to rules on what expenditure and income was accepted for subsidy). No subsidy would be paid if no expenditure were incurred after a disposal; and if any residual debt were left outstanding on the account, subsidy would meet the whole cost of financing it.

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MR RIDLEY'S PROPOSALS

4. Mr Ridley proposes to change the rules of the present subsidy system for its last year, 1989/90, to remove the anomalies. Where dwellings were sold the proceeds would have to be used to redeem the associated debt. If no debt was left outstanding subsidy would cease. But if there was outstanding debt, subsidy would be paid to meet 75% of the debt charges, leaving 25% to be met locally. This would apply to sales under the Right-to-Buy (RTB) and tenants choice as well as voluntary disposals. But for transfers to Housing Action Trusts (HATs) Mr Ridley proposes a safety net grant to ensure that no residual costs fall locally: effectively a 100% subsidy.

5. Mr Ridley also wishes these arrangements to apply under the new financial regime. But as noted above, the new subsidy system would not achieve the same effect. He therefore proposes a requirement that the cost of the debt charge on any net receipt or residual debt left after a disposal be transferred to the authority's general fund. 75% of any debt charges would be met by a new "residual debt subsidy" (RDS), leaving 25% to be financed by community charge payers.

MAIN ISSUE

6. Your letter of 31 October recorded the Prime Minister's concern that leaving community charge payers to find 25% of any residual debt charges could act as a disincentive to some local authorities to make voluntary stock disposals. She suggested that the consultation paper should leave this question open, and put forward as an alternative means of ensuring value for money that the Secretary of State should determine the disposal price, at least for subsidy purposes.

7. Mr Ridley's new minute says that there is a very difficult balance to be struck between the desire to avoid any disincentive to voluntary sales and the need to ensure that authorities have an incentive to get the best price. He attaches a paper by officials which makes much of the latter point. Mr Ridley seeks a collective discussion of these issues.

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WAY FORWARD

8. There appear to be two main alternatives to Mr Ridley's earlier proposal, both of which would go some way to improve the incentives for authorities to dispose of stock.

i. The first would be to adopt the approach which Mr Ridley proposes, but with a residual debt subsidy at 90%, at least for large scale disposals. This would leave only 10% to be found locally. Few of the English authorities who are interested in disposals are estimated to be in the position where they would have residual debt, so there would be no real disincentive in England at present. Some interested Welsh authorities are thought to be in this position. But Mr Walker has already accepted a 90% rate of RDS in Wales. A 90% subsidy rate might just be acceptable to Treasury Ministers, who are worried about the incentives to get the best price. The main disadvantage of this approach is that it would complicate the financial arrangements for housing accounts which Ministers agreed in the Summer.

ii. The second would be to move to a 100% subsidy for residual debt charges. The simplest way to do that would be to keep the financial effects of disposals within the housing account as at present, and let the new subsidy system operate as intended. It would then be necessary to make equivalent arrangements for 1989/90, and to introduce new rules to ensure that authorities got the best price for their dwellings. Treasury Ministers are likely to be unhappy with a 100% subsidy.

But the policy
that argues
Mr Ridley
can do this
via the
approval process.

9. Option (i) above - a 90% subsidy rate - is likely to be most acceptable to Mr Ridley and Treasury Ministers. But option (ii) would seem to be simpler and more straightforward, and would be consistent with the new system for housing accounts approved in the Summer.

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TIMING AND HANDLING

10. The Prime Minister will want to decide whether there should be a collective discussion of this issue. If so, the E(LF) meeting fixed for Thursday 22 December seems the obvious forum. DOE would like an earlier decision, despite the time that has elapsed since Mr Ridley's first minute, because provisions need to be included in the Housing and Local Government Bill which is due to be introduced in late January. But the details of the subsidy rates could not be prescribed without consultation and would probably be set in regulations rather than on the face of the Bill itself. So far as we can judge, further work during the Bill's Committee Stage seems almost inevitable. On this basis a meeting on 22 December should not create undue problems.

11. The alternative would be to try to resolve this issue in correspondence. That is likely to be easier if the Prime Minister now wishes, in the light of Mr Ridley's arguments, to go for a 90% subsidy rate (option (i) above).

CONCLUSION

12. The Prime Minister will wish to consider

- i. whether option (i) (90% subsidy rate) or option (ii) (100% subsidy rate) is to be preferred;
- ii. whether there should be a collective discussion at E(LF) on Thursday 22 December, or whether a further attempt should be made to resolve the issue in correspondence.

AW.

R T J WILSON

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PRIME MINISTER

2 December 1988

HOUSING SUBSIDY FOLLOWING SALES AND
TRANSFER OF HOUSING STOCK

Nicholas Ridley has minuted you about liability for outstanding housing debt following sales or transfer of housing stock.

His proposal separates sales into three distinct categories:

Category 1 Sales to Tenants and Transfer Through Tenants
Choice

In cases where such sales do not cover the relevant outstanding housing debt, he proposes that central government continues to pay Residual Debt Subsidy at a rate of 75%. This would extend present policy under Right to Buy to the new regime. It seems a perfectly sensible arrangement: it creates no disincentive effects for tenants but provides a positive incentive for local authorities to seek the highest prices.

Category 2 HATs

The proposal for HATs is unchanged from the draft consultation paper and has been challenged by no-one: it is that central government provides 100% subsidy on residual loan charges. As HATs are an initiative by central government, this means that no additional costs will fall upon either local tenants or community charge payers.

Category 3 Voluntary Sales of the Whole Stock

This is the only real point at issue. Voluntary sales are an initiative taken by the local authority. Nicholas Ridley argues that the local authority must have some financial stake in the outcome. If it does not, then the local authority will not seek the highest price for its housing stock and outstanding housing debt will therefore be greater than otherwise. The end result is that the tax payer will be forced to pick up a higher bill. As a result, Nicholas Ridley suggests that central government should pay the residual loan charges but at a rate of less than 100%, say 75%.

However, if community charge payers have to pick up part of the bill, this will be a disincentive for voluntary sales to proceed. It is very difficult for any local authority to justify increasing the Community Charge simply to enable it to dispose of its housing stock through a voluntary transfer. It would appear politically inept.

The objection which Nicholas Ridley raises can be met quite easily because all voluntary transfers must come to the Secretary of State for approval. If the Secretary of State decides that the price which the local authority has negotiated for the sale is too low, he could make it quite clear that he is prepared to pay subsidy but only on the basis of a realistic (and higher) price. This would be sufficient to meet the Secretary of State's objections; yet it would not create a disincentive to sell the stock.

The voluntary transfer of local authority housing stock is a major step forward in housing policy and a crucial nail in the coffin of council housing. It is very important that the government does not create disincentives for local

authorities and community charge payers to proceed in this way.

Recommendations

- (a) Accept Nicholas Ridley's proposal that in the case of sales under Right to Buy and sales under Tenants Choice, Residual Debt Subsidy should be less than 100% - say 75%.
- (b) Agree to the HATs proposal as it has been set out: Residual Debt Subsidy is paid at a rate of 100%.
- (c) In the case of whole stock voluntary sales, require that Residual Debt Subsidy is also paid at a rate of 100%.

Brian Griffiths

BRIAN GRIFFITHS

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PRIME MINISTER

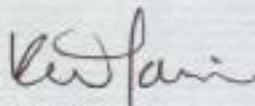
HOUSING SUBSIDY FOLLOWING LARGE-SCALE DISPOSALS OF STOCK

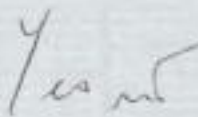
Earlier in the autumn, following advice from Peter Stredder, you expressed concern about the proposal that local authority charge payers should be liable for 25 per cent of outstanding loan charges following large-scale disposals of local authority housing stocks (see my letter of 31 October at flag A).

Nicholas Ridley has now responded in his minute of 24 October (flag B) enclosing a further paper by officials. He suggests an E(LF) discussion.

Both the Policy Unit (flag C) and the Cabinet Office (flag D) have provided commentaries. Brian Griffiths continues to advocate the approach favoured by Peter Stredder. Cabinet Office set out the issues, and suggest it would be feasible to discuss the issue at the E(LF) meeting we have pencilled in for 22 December.

I think it probably would be difficult now satisfactorily to resolve the issue in correspondence. Content to put the issue on the agenda for E(LF) on 22 December? ✓


PP PAUL GRAY



2 December 1988

PM2AIO

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From The Secretary of State for Wales

THE RT HON PETER WALKER MBE MP

CT/3724/88

30 November 1988

NB

PL16

1/12

Rt Hon Nicholas Ridley

HOUSING AND LOCAL GOVERNMENT BILL

Your letter of 9 November to John Wakeham commented on my proposals to allow Welsh local authorities to adopt the Welsh version of their corporate title.

I was glad to see that you are prepared in principle to move in this direction. I believe, however, that we must discount your proposal of equal validity and proceed instead as I originally proposed. Whilst I do not consider it unreasonable for Government Departments to have to come to terms with 3 new words for their vocabularies, I think your proposal for equal validity would cause difficulties in that the same statutory body could be referred to by a different title in different documents.

My proposal, that we allow them to adopt the Welsh version, has the advantage of avoiding confusion and will bring us benefits out of all proportion to the effort that will be required to come to terms with a Welsh word or two on an official form. I hope that on reflection, therefore, you can agree to a clause along these lines being included in the forthcoming Bill.

I am copying this letter to the Prime Minister, John Wakeham, other members of 'H' Committee, Sir Robin Butler, and to First Parliamentary Counsel.

Rt Hon Nicholas Ridley MP
Secretary of State for the Environment
2 Marsham Street
London
SW1

[Handwritten signature]

Housing: Policy Pro 13





DEPARTMENT OF HEALTH AND SOCIAL SECURITY

Richmond House, 79 Whitehall, London SW1A 2NS

Telephone 01-210 3000

GPU

From the Secretary of State for Social Services: Security

CONFIDENTIAL

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

30 November 1988

NBM + min stage

*RCCG
1st*

Dear Nicholas,

HOUSING SUBSIDY FOLLOWING LARGE SCALE DISPOSALS OF STOCK

Thank you for the copy of your minute of 24 November to the Prime Minister. I agree that there is a difficult balance to be struck in setting the rate of subsidy for residual loan charges. One point which we should not overlook is that, with a lower rate of direct subsidy, the remaining cost will have to be met by higher rents or higher community charges, and a proportion of it will still fall to central government via housing benefit or community charge benefit.

That said, I do not believe the choice between full and partial subsidy is that clear cut at this stage, and would favour the suggestion in Paul Gray's letter of 31 October that both approaches be floated as alternatives in the consultative document.

Copies to members of E(LF), the Attorney General and Sir Robin Butler.

JOHN MOORE

HOUSING

Policy pt 13



FILE
BAM

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10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

24 November 1988

Dear Rose,

**HOMELESSNESS: POSSIBLE PRIVATE
MEMBERS' BILL**

The Prime Minister was grateful for your Secretary of State's minute of 23 November. She is content for him to proceed as proposed, by bringing back to E(LF) as quickly as possible a considered package of proposals.

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

*Yes,
Pc*

PAUL GRAY

Roger Bright, Esq.,
Department of the Environment

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dlr

CCPS



PRIME MINISTER

at 10.15
Your Office wrote to mine on 31 October expressing your concern about the proposal that local authority charge payers should be liable for part of any residual debt following disposal of housing stock.

We have a very difficult balance of interests to strike here and I would suggest that collective discussion might be appropriate. At any rate, I enclose a new paper setting out the issues fully.

I see no difficulty in reaching the conclusion that community charge payers should meet (as they always have done) part of the loan charges remaining if sales to individual tenants do not fully cover the outstanding debt. Incentives to such sales are much less important because the Right to Buy exists. Similarly I would say that with Tenants' Choice the authority should be under the financial discipline of picking up part of any unredeemed debt. This is an essential incentive for getting the disposal price right.

It is where authorities are contemplating voluntary disposal of their stock, in whole or in part, that we face real difficulties. I am extremely reluctant to place anything that looks like a financial penalty in their way, since the success of our policy relies on encouragement and inducement. But if the authority has no stake in the financial outcome then all the responsibility for value-for-money, in the broadest sense, is passed to Whitehall, and the taxpayer is forced to pick up the consequences of any failure to negotiate with sufficient firmness. In such circumstances, dependent on the authority for information, not brought in at the beginning, and with the authority in the closest contact with tenants and the prospective buyer, it will not be easy to ensure that financial interests are properly covered, and avoidable burdens are not imposed on the taxpayer.



The question we face now is partly one of timing: whether it is possible to take a harder line for the time being than we feel may be necessary in due course (and begin with consultation on a subsidy of 75% or 90%), or conversely whether our policy on voluntary disposal would suffer from adverse signals at an early stage.

I would welcome discussion with colleagues and copy this letter to other members of E(LF), the Attorney General and Sir Robin Butler.

A handwritten signature, appearing to be "NR", written in dark ink.

NR

24 November 1988

CONQUEROR

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REVIEW OF HOUSING SUBSIDY FOLLOWING LARGE SCALE DISPOSALS OF STOCK

MEMORANDUM BY THE DEPARTMENT OF THE ENVIRONMENT

1. Ministers have agreed to the main proposals made following a review of housing subsidy as it applied to large-scale disposals of stock. One important point remains to be settled: whether the Exchequer should pay subsidy to any authority that is left with residual debt following sales, and if so at what rate. We face a conflict of interest.

2. The review was explained in a memorandum dated 25 July 1988 which the Secretary of State circulated under cover of a minute of 27 July to the Prime Minister. Other Ministers have since commented, and the most recent communication is the letter of 31 October from the Prime Minister's Office.

Recapitulation

3. The review had to consider whether the housing subsidy system would give reasonable compensation to authorities losing stock to a Housing Action Trust (HAT) and sufficient incentive to those contemplating the voluntary sale of their stock to housing associations and others. By extension it also considered the cases of compulsory disposal under the Tenants' Choice measures and the Right to Buy, and voluntary sales to sitting tenants made without recourse to RTB provisions.

4. The review found that the present housing subsidy system had anomalous effects. It had been designed before widespread or large-scale sales had occurred, and following disposals (even individual sales to tenants) some authorities would benefit from a windfall increase in subsidy while others would face residual loan charges (arising where the current market-value with tenanted occupation was less than the outstanding

historic debt) without full Exchequer support. Such anomalies might discourage large-scale voluntary sales in some cases while taking Exchequer monies unnecessarily in others; they would also give rise to legitimate complaints of unfairness in cases of compulsory transfer. And the same issues had to be faced in designing the new subsidy regime to follow ring-fencing of authorities' Housing Revenue Accounts in April 1990.

5. Ministers have accepted that from next April subsidy should be paid, in respect of any dwelling sold, only in respect of any residual loan charges related to (or apportioned to) those dwellings. Although an authority would be permitted under separate rules to use part of its receipts for either the reduction of indebtedness or new and additional investment, it would be assumed for subsidy purposes that each year the entire receipt from sales was put to redeem existing housing loan debt. An authority with residual debt, on that calculation, would receive Exchequer support with the loan charges through a new Residual Debt Subsidy (RDS). After ring-fencing the same scheme would apply, with the further rule that any residual debt should be transferred out of the Housing Revenue Account.

Decisions Still Required

6. In most cases that Residual Debt Subsidy would be paid, it was envisaged, at a rate of less than 100%. The remainder would fall (in 1989/90) on the HRA next year where it could, through consequential transactions, be funded by the general rate fund if the authority wished. After ring-fencing the remainder would lie outside the HRA where it could only be funded by the general fund. In the case of HATs, RDS coupled with a safety net would ensure 100% compensation so that the transfer did not financially disadvantage other tenants or the ratepayers. The earlier paper proposed that subsidy on residual loan charges could be 75% (to ensure that authorities had a financial interest in value for money) but warned that authorities contemplating wholesale voluntary disposals may argue strongly for a higher rate.

7. Since then the Secretary of State for Wales has agreed with Treasury colleagues on 90% in Wales. The Prime Minister's Office has now posed the question whether in the case of voluntary whole stock disposals the compensation should be 100% with an alternative means of ensuring value for money in such cases, namely that the Secretary of State, at least for subsidy purposes, shall determine the valuation. It is this that has now to be decided.

Objectives

8. We have two conflicting aims:

- * To promote large scale disposals by voluntary means, a policy that relies upon encouragement and incentives; this argues against leaving any burden, even 10% of residual loan charges, on the rate/community charge payer; and

- * To promote in local authorities a proper sense of responsibility for public expenditure; responsibility; this argues for placing a percentage of any losses on the rate/community charge payer, whether 10%, or some other figure; there may be an alternative however of central government intervention.

9. In housing policy generally we are working through statutory compulsion in some areas and inducements to voluntary action in others where that seems likely to succeed. This distinction should be kept in mind in considering how the rules for RDS should apply. The following paragraphs consider the different cases of disposal, beginning with the voluntary ones and proceeding to those of compulsion.

Voluntary Whole stock Disposal

10. Decisions on subsidy for voluntary whole stock disposal are irrelevant to those English authorities with well-advanced plans for selling their housing, because they expect to sell for more than their outstanding loan debt. Subsidy is

relevant, however, to authorities in Wales contemplating disposals; and it would be relevant to many English authorities who may not yet have considered seriously the sale of their housing.

11. Value for money is at stake in two main ways:

i) **The valuation of the stock.** If housing subsidy is to depend on the price at which the housing is sold, we need to be confident that the price has not been depressed, as a way of shifting costs from local to central taxpayers. Confidence on this point would require central Government, in the person of the District Valuer, to take full responsibility for the valuation. We would not be able to rest on our arrangement for the Valuation Office centrally to confirm that there was no prima facie reason for thinking that the price departed significantly from our guidelines.

ii) **The sale price will reflect legitimate expectations** about catching up repairs and future improvements; the authority will be tempted to make forward commitments large enough to win tenants' support; it might be induced to enter into forward contractual commitments or even begin work; it might promise a rent freeze or rents that will not rise faster than inflation; if the Secretary of State is not to incur unnecessary costs (through reduced sale prices) he would have to be a party to any undertakings made to tenants, with a right to inspect the stock and make his own judgment of an acceptable level of future repairs and improvements and a veto on contracts taken out up to the point of sale. While on the face of it, intervention by the Secretary of State should address all known value-for-money considerations in a transaction, he will not be brought into the picture until the authority gives him notice, and only the local authority will be in possession of the full facts.

12. Thus, whilst it would be possible in principle for the Secretary of State to vet the price proposed by a local authority selling its housing voluntarily, the work involved would be onerous, delaying, and ultimately not necessarily fully effective in protecting unreasonable claims on subsidy. It would mean a departure from our normal philosophy of encouraging market forces to engender financial discipline in local authorities, and reliance instead on transferring the responsibility to central government.

Other voluntary sales

13. Very similar considerations arise in the case of voluntary sales of part of the stock, eg to a housing association. We should favour the selling of separate estates to separate landlords as this achieves the same objectives while increasing competition. The occurrence of more numerous, smaller sales would entail greater work for central government however, and the risks of local creative accounting could be greater. A local authority that was so-minded could follow a policy over many years of letting value drop relative to debt, safe in the knowledge that it could at any point sell with the full deficit being picked up by the Exchequer. All this suggests reliance on a financial interest for the authority with subsidy at less than 100%. But to set rules which distinguished different rates of subsidy between wholesale and partial voluntary disposals would encourage the former but discourage the latter. One solution might be to set a threshold of a number of dwellings above which a 100% rate of Residual Debt Subsidy would apply, but rules of that kind distort behaviour and invite creative accounting.

14. There is moreover the case of voluntary sales to tenants. One third of sales to tenants are agreed voluntarily, outside the Right to Buy. In theory there is an argument for giving the same compensation (eg 100%) to this class of disposal as to voluntary sales of the whole stock. In practice however most of the tenants who by the agreement could exercise the right to buy instead. This reduces the case for financial inducements

for voluntary sales to sitting tenants, and suggests a rule that Residual Debt Subsidy could be less than 100% in cases of all sales to tenants. Sales of stock to any other purchaser would be subject to whatever subsidy applied to the wholesale transfer. This is a clear demarcation to draw and does not depend upon the number of dwellings sold - always open to manipulation -although it distinguishes oddly between the sale of individual dwellings that are vacant or tenanted.

Compulsory Sales

15. Although there is a procedure for Right to Buy sales by which the District Valuer is brought in where the tenant appeals against a valuation, this is not required where the tenant and local authority are able to agree upon the price. It would be a retrograde step to involve the DV in all valuations, which would be a necessary consequence of relieving an authority of any of the cost of residual debt. Moreover the principle of some of the cost falling locally is well established, and strictly no incentive is required where mandatory provisions apply.

16. In cases of sales under Tenants' Choice legislation authorities may assert that it is unfair that they should both lose their stock and have to meet some of any residual debt from the general rate fund/community charge. They will be able to point to the more generous treatment proposed for HATs (see next paragraph) with which the parallels are very strong. They could argue also that because Tenants' Choice prices will be based on a statutory definition of "market value subject to tenancy" the Exchequer has an assurance of value-for-money. However it is the authority which must quote the suggested transfer price in the first instance, and a 100% subsidy rate would reduce the pressure on them to achieve best price. There seems no reason for the additional cost to the Exchequer or the greater risks to value for money of increasing subsidy from 75% to 100% in the case of Tenants' Choice.

17. Special considerations arise with Housing Action Trusts (HATs) Although these are compulsory sales with no necessity for an incentive, Ministers have already agreed that no additional costs should fall upon local tenants or ratepayers. It was therefore recently indicated during discussion on the Housing Bill that we shall be coming forward with subsidy proposals to deal with outstanding debt left with authorities when HAT transfers take place. In some instances this could go slightly beyond 100% subsidy on residual loan charges to give compensation where, in effect, the rent income from HAT dwellings had been providing a cross-subsidy to other tenants. The safety net for HATs was described in the draft consultation paper attached to my minute of 24 October.

Conclusions

18. Ministers may readily confirm agreement that Residual Debt Subsidy should be less than 100% in the case of:

- i) all sales to tenants and
- ii) sales under Tenants' Choice;

The HAT safety net will be as described in the draft consultation paper.

19. (If we should decide on 100% for voluntary sales to other landlords it would be appropriate to announce 75% as the rate of subsidy for sales to tenants and under Tenants' Choice. If 90% was settled on for the former, the lower rate of 75% should still be proposed for the latter. This is partly to reduce Exchequer costs, partly also to avoid being stuck with a high figure if, after public consultation or later, we were to move from 90% to 100% for whole stock voluntary sales.)

20. A decision is needed on how to treat whole stock and part stock voluntary sales. Ministers are invited.

* to weigh the risk of discouraging voluntary disposals against the central government intervention and financial risks inherent in removing from authorities any share in residual losses.

This is not an easy balance to strike. Consideration should be given amongst other things to whether it is better to begin public consultation with a figure less than 100% and be prepared to increase it, or whether that would give the wrong signals at the outset of the new policy.

21. Once these issues are settled a revised consultation paper should be published as quickly as possible.

Housing: Policy
Pg 13



Prime Minister's
 Content to await Mr.
 Raby's next paper to E(LF)?

PRC6
 13/11

PRIME MINISTER

HOMELESSNESS: POSSIBLE PRIVATE MEMBERS' BILL

During the homelessness discussion at E(LF) on 9 November ^{minutes attached} colleagues were concerned to find some acceptable and practical way to limit local authorities' ability to "dump" homeless families in accommodation outside their own boundaries. It was suggested that we might encourage a Private Members' Bill to stimulate discussion in the House on the issue.

Having given the matter some thought, I do not feel this would be a helpful way forward, at least at this time. There is undoubtedly a problem here and one that I would like to solve. But we have no ready-made solution. An outright ban is not realistic; more flexible options might be developed, but I would like time to consider their merits, as part of the fresh homelessness proposals I am considering in the light of the E(LF) discussion. I would be unhappy to float now a hand-out Bill what would have to be an ill-thought out measure just to provoke discussion.

My other major reservation is that we could not confine Parliamentary discussion just to this aspect of the homelessness problems. Inevitably, we would give Members a further opportunity to press us on the Review and on specific issues. I doubt if this would be either useful or productive.

The best course is for me to bring back to E(LF) as quickly as possible a considered package of proposals. I will try to deal with the "dumping" issue, directly if possible. I hope you agree this is the right way forward.

I am copying this letter to colleagues in E(LF) and to Sir Robin Butler.

NR

23 November 1988



SCOTTISH OFFICE
WHITEHALL, LONDON SW1A 2AU

cc:PU

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

ArB

RAC

14/11

// November 1988

Dear Secretary of State,

HOUSING BILL: COMMENCEMENT

Thank you for sending me a copy of your letter of 31 October.

Like you I am fully aware of the considerable work which has to be done to enable the new housing agencies to come into operation on 1 April 1989. I am therefore quite content with your proposal to implement the legislation setting up Housing for Wales on 1 December this year.

I am copying this letter to the members of L Committee, Nicholas Ridley and Sir Robin Butler.

Yours sincerely

*MIS Jones
Private Secretary*

MALCOLM RIFKIND

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

ccps.



2 MARSHAM STREET
LONDON SW1P 3EB
01-212 3434

My ref:
Your ref:

The Rt Hon John Wakeham MP
Lord President of the Council
Privy Council Office
Whitehall
LONDON
SW1

NRPM
PCCB
9/11

9 November 1988

Dear John

HOUSING AND LOCAL GOVERNMENT BILL

I have seen Peter Walker's letter of 17 October, proposing an addition to the Housing and Local Government Bill to permit Welsh local authorities to adopt completely Welsh names.

Although I have expressed the hope that we might be able to find drafting time and space in the Bill for proposals from other colleagues, I have to say that I do not think that I regard this proposal as of sufficient weight to justify displacing other proposals for which drafting time is not yet available - such as the proposals agreed in principle for a statutory register of councillors' pecuniary interests or additional publicity for local authority auditors' reports in the public interest.

In any event, I also see some difficulties with the proposal as it stands. Just as the present grievance is presumably that the English form of the local authority name must be used even in Welsh formal documents, Peter Walker's proposal would result in the Welsh form of the name having to be used in English formal documents: no doubt to the puzzlement of many. As and when legislative time is found for this proposal, I would suggest that the provision should be made for these authorities (if they wish) to have two forms of their name both of equal validity.

Subject to the above, I would take the new clause if you felt there was room in the Bill.
I am sending copies of this letter to the Prime Minister and the other members of H Committee, to Sir Robin Butler and to the First Parliamentary Counsel.

Nicholas Ridley
Nicholas Ridley

NICHOLAS RIDLEY

Housma: Pouchy PNB



CCBEP

PRIME MINISTER

MEETING OF E(LF): 9 NOVEMBER: HOMELESSNESS

You saw over the weekend Nicholas Ridley's paper (Flag A) and the Policy Unit note (Flag B).

I now also enclose:

Flag C: Cabinet Office brief;

Flag D: Note by Richard Luce

You will want to use the Cabinet Office brief to steer the discussion. It brings out that some of the elements in the proposed package would be highly controversial - particularly the treatment of young unmarried mothers - and you will want to consider the merits of each element in turn. There is considerable overlap between the Cabinet Office and Policy Unit comments, e.g. on young unmarried mothers and the status of the new homelessness agency.

Acc.

Paul Gray

8 November 1988

CONFIDENTIAL



CABINET OFFICE
OFFICE of the MINISTER
for the CIVIL SERVICE

cc PU
BWP

The Minister of State
Privy Council Office
The Rt. Hon. Richard Luce MP

Horse Guards Road
London SW1P 3AL

Telephone: 01-270 5929

C88/5439

Rt Hon Nicholas Ridley MP
Secretary of State for the Environment
Marsham Street
LONDON SW1

7 November 1988

Dear Nicholas, with Plr

HOMELESSNESS (E(LP)(88)14)

I have received a copy of the memorandum setting out your proposals for tackling homelessness.

You have proposed that a new public body should be set up to monitor and assess local authority performance of duties toward the homeless, and itself to exercise functions in managing empty Government stock and housing homeless without local connections. I recognise why it may appear attractive politically to transfer these responsibilities to a body operating at arm's length. However, I question whether it is the right approach in the present instance.

Many of the proposals are bound to be controversial. Under the arrangements you propose the bulk of criticism will focus on those running the new body. In the absence of direct ministerial control, the temptation will be for them to respond by advocating increased resources to improve the availability of accommodation, either directly or by weakening the new criteria which are a central feature of your proposals. The extent to which you will be able to control this is, as has been seen with other quangos, likely to prove limited.

A better approach would be to avoid this unnecessary extra layer of bureaucracy. None of the proposed functions would be inappropriate to officials in your own department, if necessary using the Housing Associations as the mechanism for local delivery. That would parallel the current system, as set out in your paper, under which your Department, either directly or through the Housing Corporation, funds voluntary bodies outside the public sector to carry out functions in relation to mobility. I would strongly advocate such an approach.

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

RICHARD LUCE

W —
Richard

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RA

PRIME MINISTER

MEETING OF E(LF): 9 NOVEMBER: HOMELESSNESS

There is just one item on homelessness on the agenda for next Wednesday's E(LF). But there are a number of highly sensitive points here, so I imagine you will want to take a first look at the papers over the weekend. These are:

Flag A: Nicholas Ridley's paper

Flag B: Commentary by the Policy Unit, broadly supporting the Ridley proposals with a number of detailed qualifications.

Cabinet Office briefing will be available next week.

Recd.

PAUL GRAY

4 November 1988

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P 03262

PRIME MINISTER

HOMELESSNESS: NEW POLICY PROPOSAL

[E(LF)(88)14]

1. Mr Ridley's paper sets out a comprehensive package of proposals for tightening the law on homelessness and boosting the supply of accommodation for the genuinely needy. He seeks agreement that he should go out to consultation on the proposals early in the New Year, with a view to legislation in the 1989-90 Session of Parliament.

2. The elements of Mr Ridley's package can each be considered separately on their merits. You may wish to take them in the order set out in paragraph 11 of his paper:

i. amending the definition of homelessness (paragraph 3 and Annex B). The definition of 'homeless' would be narrowed so that it would in effect only cover those who were virtually without a roof over their heads. All other categories covered by the present definition would be in a new 'second order' of priority' category for the purposes of allocation of council housing. The "dumping" of the homeless in Bed and Breakfast accommodation in another local authority's area would require the approval of a new agency which he proposes to create;

ii. measures to boost supply in the short term (paragraph 5 and Annex C). He proposes a package of initiatives for this purpose, including action on empty property, self-help refurbishment including homesteading, encouragement of lodgers and using the new agency to increase mobility on the part of the homeless. | You may in particular wish to note the action on 20,000 vacant Government dwellings;

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iii. young unmarried mothers (paragraph 4). Mr Ridley proposes hostel units, basic in design and with communal facilities, to reduce the incentive to young women to become pregnant in order to qualify as being in "priority need" under the homelessness legislation;

iv. a new homelessness agency (paragraph 6 and Annex D). This would monitor and assist local authorities, promote mobility and manage empty Government buildings.

3. Some of the detail of the proposals is complicated and will need further work. You may want to have a Second Reading debate on the package concentrating on the merits of the broad approach under each heading and, given the likely controversy which will surround some aspects, how it would be presented. If the legislation reached the statute-book in late Summer or early Autumn 1990, it would presumably come into effect towards the end of 1990 or in early 1991.

BACKGROUND

4. The present law requires local authorities to find or provide permanent accommodation for people who meet each of three criteria:

i. they are homeless;

ii. homelessness was not intentional;

iii. they are in "priority need". This term is defined in the statute to include pregnant women; households with dependent children; the elderly, disabled or vulnerable; and people affected by an emergency (eg a fire).

People with a local connection with another area can be referred to their home authority. But in practice only 1% are so referred.

5. In addition local authorities are required to find or provide temporary accommodation in certain circumstances:

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- i. while applicants are being assessed;
- ii. while they are being referred to another authority;
- iii. after acceptance but before permanent accommodation has been found;
- iv. for people declared intentionally homeless, for a "reasonable period".

Such temporary provision is often in bed and breakfast accommodation, which gives rise to the highest costs and most public criticism.

6. The homelessness requirements have been imposing sharply increasing obligations and costs on authorities. Mr Ridley says that the number of people accepted as homeless has more than doubled, to 120,000 per annum, since 1977. He projects a further increase to 145,000 by 1991, with 30,000 families in bed and breakfast/hostel accommodation (compared to 12,000 in 1986). Costs have risen from £20m to £100m in the last 3 years. On his projection for bed and breakfast accommodation, a further sharp increase is to be expected.

MAIN ISSUES

7. Mr Ridley's proposals would amount to a major overhaul of the law on homelessness and would tackle an area which, as the figures demonstrate, is rapidly becoming a serious problem. If adopted, the proposals could be defended on the following grounds:

- i. they would concentrate top priority help on homeless people who really needed it;
- ii. they would curb certain abuses (eg by young unmarried mothers) and limit undesirable practices by local authorities (eg by Bed and Breakfast arrangements in other local authorities);

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iii. they would boost the supply of accommodation in the short term;

iv. there should also be public expenditure savings.

8. At the same time, some aspects of the proposals would be controversial, for instance with housing pressure groups and probably the churches. And there could also be problems in Parliament: the Government were defeated in the House of Lords on the definition of homelessness in 1986 (paragraph 3, Annex A). You may therefore wish to consider each of the proposals separately, in terms of both merits and presentation, and ask the business managers about handling in Parliament. Each of the proposals appears to be self-contained and it would presumably be possible to expand, contract or modify the package as you judged appropriate.

Main homelessness obligation

9. Mr Ridley proposes to tighten the statutory definition of homelessness. The intention would be to restrict it in effect to people who virtually do not have a roof over their heads, are accommodated on a night-to-night basis, or are subject to really acute overcrowding or deprivation. A House of Lords judgement in 1985 had at least part of the same effect, but was reversed following a Government defeat in the Lords over an amendment to the Housing and Planning Act 1986. This proposal is therefore likely to be controversial.

10. Mr Ridley also proposes to tighten the homelessness obligation in a number of other ways:

i. by requiring a stronger local connection, based on 2 years' residence or 6 months' full-time employment, before an authority is required to provide housing. This would not in itself cut the number eligible for housing, but might take some pressure off authorities in areas like London;

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- ii. by removing duties to provide temporary accommodation in specified circumstances and replacing them with discretion for local authorities. As a result some households would be expected to stay in their existing inadequate accommodation. This would be controversial, but should cut the use of costly bed and breakfast accommodation;
- iii. by imposing a time limit of 28 days on local authorities' assessment of homelessness applicants, which should also cut the use of temporary accommodation;
- iv. by imposing new requirements on authorities over the allocation of permanent council housing. First priority would go to those accepted as homeless, again cutting use of bed and breakfast accommodation. Second priority would go to those in genuine need but not homeless. Such obligations would be consistent with the Government's overall policy that public housing should be restricted to those with a genuine need for social housing, but would probably be opposed by councils and those already on their waiting lists.

11. You will wish to invite the Sub-Committee to decide whether to endorse each of these proposals.

"Dumping" of homeless in other local authorities

12. You have expressed concern on a number of occasions about the practice of some authorities, eg Camden, in accommodating homeless families in other authorities' areas, eg in Westminster. This is resented by the receiving authorities, partly on the ground that it imposes costs on their services, including personal social services. Mr Ridley says that it is not practicable to ban the practice. He therefore proposes that authorities wishing to "export" homeless households should require the approval of the new homelessness agency which he wishes to establish. You may wish to explore whether this is the best approach. On the face of it, one possibility would be to ban "exports" of the homeless, except by agreement with the receiving authority. Alternatively you might want to ask him to consider whether it would be possible to devise financial disincentives: for

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example, the exporting authority could be required to reimburse any costs incurred by the receiving authority (eg in providing social services or education), or simply to provide those services itself.

Young single mothers

13. Concern has also been expressed that the present law may encourage some young women to become pregnant in order to qualify for housing. Mr Ridley proposes to meet this concern by requiring young homeless women with children to be housed in new hostel units, which would be basic in design and have communal facilities. This proposal seems likely to be both expensive - in capital and revenue expenditure - and controversial. There would probably be no shortage of hard cases highlighted in the media, and it is not known whether housing associations or councils could be made to co-operate over such hostels. Here again, you may want to ask Mr Ridley what the options are. One possibility is that young single mothers could be encouraged to live in their parents' home wherever possible: Mr Ridley's proposed amendment of the basic homelessness obligation might achieve that in many cases without specific measures targeted at this group.

Increasing the supply of social rented housing

14. Annex C to Mr Ridley's paper contains a number of proposals to increase supply in the council, housing association and private rented sectors. You will probably wish to endorse action in these areas.

15. The Sub-Committee may however wish to discuss Mr Ridley's proposal to bring those of the 20,000 empty Government dwellings which cannot be sold into use as temporary accommodation for the homeless. The majority are apparently owned by the Home Office and the Ministry of Defence. You may wish to ask Mr Ridley to work up detailed proposals with the Ministers concerned as soon as possible.

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A new homelessness agency

16. Mr Ridley proposes to set up a new agency to ensure effective delivery of the new measures. It would have special responsibility for mobility, would manage empty Government dwellings, and be responsible for the homeless with no local connection under the new definition. Mr Ridley estimates that it would require 100 staff, at a cost of £3.5-4m, possibly reduced by income from fees: it would replace three existing mobility bodies which currently spend about £1.5m per annum. You will want to decide whether there is a sufficient case for creating a new quango. The main question is whether its functions could be discharged by the Department of the Environment or by any other existing body, eg the Housing Corporation or the existing mobility bodies. It would be highly undesirable if the new agency were to become a pressure group arguing for more resources for the homeless.

Legislation and timing

17. Mr Ridley's proposals would require a significant amount of new legislation. This could not realistically be included in the forthcoming Housing and Local Government Bill. He therefore proposes to consult on his proposals, leading to legislation in the 1989/90 Session of Parliament. If you agreed, the necessary provision could form one part of a Bill dealing also with Mr Walker's flexi-ownership proposals. On that assumption, consultation could start early in the New Year, as Mr Ridley proposes.

VIEWS OF OTHER MINISTERS

18. The Chief Secretary, Treasury is likely to be briefed to support Mr Ridley's proposals, subject to further work on the details, particularly of a new agency. The Secretary of State for Wales is likely to be briefed to welcome the proposal to tighten the local connection test (because of particular difficulties in North Wales) but may question the value of other parts of the package, particularly on young unmarried mothers and the new agency. The Secretary of State for Scotland may question the case for changes Mr Ridley proposes, particularly in view of the likely controversy.

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HANDLING

19. You will want to ask the Secretary of State for the Environment to introduce his paper. The Secretaries of State for Scotland and Wales will wish to comment on the implications for those counties. The Secretary of State for Social Security may wish to comment on any implications for the housing benefit and income support systems. The Chief Secretary, Treasury will wish to comment on the financial implications. The Home Secretary and the Minister of State, Ministry of Defence (Mr Freeman) may wish to comment on the proposals on empty Government property.

R.T.W.

R T J WILSON
Cabinet Office
4 November 1988

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CCB/Up
PSPRIME MINISTER

4 November 1988

HOMELESSNESS

At E(LF) on 9 November you are to discuss Nicholas Ridley's wide ranging proposals for dealing with the problem of homelessness.

Background

Nicholas Ridley's paper is about the families that local authorities are statutorily obliged to house. The number of such families has increased rapidly as has the length of time some of them have to spend in Bed and Breakfast accommodation and local authorities have consequently had fewer lettings available for other people on their waiting lists.

The legislation in effect creates a system of priority entitlement to council housing. The effects of this are:

- that there is a perverse incentive for families to make themselves homeless as the surest way of eventually gaining a council house;
- although the homeless are the only category of family with a statutory entitlement to accommodation many local authorities do not give them priority in allocating housing thus increasing the time spent in temporary accommodation;
- the concentration of homeless families in temporary accommodation in certain local authority areas (particularly Westminster) creates social problems.

Nicholas Ridley's Proposals

Nicholas Ridley proposes to tackle the situation with an imaginative and comprehensive set of proposals, detailed in the annex to this note. It has three elements:

- Changes in the law designed to cut the number of families accepted as homeless by 20%-40% and reduce the numbers in temporary accommodation by 50%. Homeless families will be given statutory priority in the allocation of local authority housing. Hostels will be created for single mothers.
- A new agency will be created to help administer the new law and assist local authorities in finding temporary and permanent accommodation for homeless families.
- There will be measures to increase the availability and supply of subsidised rented housing.

Assessment

Nicholas Ridley's proposals are soundly based since they attack the heart of this problem which is that the present law is too generous in the categories of families to which it gives priority entitlement to council housing but too weak in the responsibility it places on local authorities to deal with genuine cases as expeditiously as possible. We have the following specific comments.

1. Avoiding evasion of the tighter definition

The new tighter definition of homeless, excluding people living with family and friends, will make family and friends more reluctant to accommodate those with no other

accommodation and increase the incentive to eviction in such cases. Nicholas Ridley proposes dealing with the problem by tightening up the definition of intentionality but no specific proposals are made. It will be very difficult to frame a definition which is sufficiently but not unreasonably tight. We recommend that you ask for detailed proposals.

2. Young never married mothers

A particular problem with the present legislation is that it creates an incentive to young single motherhood since pregnancy automatically entitles a young girl with nowhere else to live to her own council house and social security benefits. You will recall that housing officials I visited in Newcastle were quite sure that this effect is at work although they thought that the recent changes in social security, particularly the abolition of single payments, had reduced the incentive.

What is needed is a change in culture so that single girls with no other opportunities no longer believe that the best way to secure a house and income is to become pregnant.

The paper canvasses the option of creating hostel accommodation as a humane disincentive to such mothers. Such accommodation will be expensive to establish and run and many local authorities are unlikely to choose voluntarily to use it.

If the option is to be successful, it will need to be widely used. The Government will need to lay down in some detail the characteristics of such accommodation to prevent local authorities calling accommodation a hostel that is in reality little different from other accommodation. And local authorities will have to be required to house, say, all single mothers under 25 in such accommodation. The

option could be presented positively since one of the requirements might be for staff trained in child care and the provision of adequate play facilities.

An alternative approach that might also change the climate but would cost less is to make close family responsible for housing their single children including grandchildren at least up to, say, the age of 25. After all many middle class families provide accommodation at least intermittently for their children up to that sort of age. In effect the law would say that a single mother under 25 was not homeless if a close relative could house her and her children without an unacceptable degree of overcrowding. An exception might be made where the danger of physical violence could be proved.

3. Making the new register of empty dwellings more useful

We suggest that the proposed register of local authority empty accommodation might be coupled with a right to use that accommodation, at least on a temporary basis. Options are that the new agency would automatically acquire a tenancy on such property where vacant for more than 3 months, that housing associations would have a right to acquire or use such property, that any landlords would have such a right or that individuals might be able to purchase it.

4. Status of the new Agency

There is a danger that if the agency is set up as an independent Corporation with its own board it will become a focus of lobbying against the Government. Instead it should be an Ibbs style agency within the DOE.

5. Homeless on the Streets

Nicholas Ridley's proposals do not deal with the increasingly visible problem of homeless or apparently homeless single people on the streets particularly in London. This phenomenon attracts public concern but there is little factual information about the numbers of individuals involved or the underlying reasons for their predicament. We suggest that further work needs to be done in this area to forestall public criticism.

Conclusion

We recommend that you welcome Nicholas Ridley's proposals on homelessness subject to the following points:

1. Detailed proposals on a tighter definition of intentionality.
2. Detailed proposals:
 - a) On a regime that would force local authorities only to house never married mothers under 25 in hostels of specified characteristics;
 - b) On the alternative of placing greater responsibility on parents to house such mothers.
3. Proposals for enabling other providers of housing to bid for dwellings on the new registers of empty local authority property.
4. Establishing the new agency within the DOE, rather than as a statutory Corporation.

5. Further work by DOE and DOH on the related and growing problem of homeless or apparently homeless single people on the streets, particularly in London.

Peter Stredder

PETER STREDDER



ST. ANDREW'S HOUSE
EDINBURGH EH1 3SX

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

NRB

REC 3/11

3 November 1988

Dear Nicholas,

**HOME OWNERSHIP FOR TENANTS OF REGISTERED HOUSING ASSOCIATIONS
(HOTCHA)**

Thank you for copying to me your letter of ^{*14*} October to the Prime Minister.

As you know, while we do have the required statutory powers we have never introduced HOTCHA in Scotland. We have not been under pressure to do so, and the very questionable effects of the scheme did not encourage introduction without clear evidence of demand.

However, I agree that a more cost-effective and better targeted scheme is worthy of introduction. Scottish Homes will have the statutory power for such a scheme and I shall be asking my officials to work up proposals with officials of the new body. I shall keep colleagues informed of progress in this, and in the meantime I should be grateful if my officials could be kept in touch with your own progress towards drawing up detailed proposals.

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

Malcolm Rifkind

MALCOLM RIFKIND

Housing: Policy Pro



cepu



Treasury Chambers, Parliament Street, SW1P 3AG

MBM

Roger Bright Esq
Private Secretary
to the Secretary of State for the Environment
2 Marsham Street
London
SW1B 2EB

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Uic

2 November 1988

Dear Roger

REVIEW OF HOUSING SUBSIDY FOLLOWING LARGE
SCALE DISPOSALS OF STOCK: ANNOUNCEMENT

below
The Chief Secretary has seen your Secretary of State's minute of 24 October to the Prime Minister. The Chief Secretary is content for the publication of the consultation document to go ahead. He is also content for the Secretary of State for Wales to set the higher percentage subsidy rate of 90 per cent for Wales, while the subsidy rate for England would remain as proposed at 75 per cent.

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

Yours ever

Carys

MISS C EVANS
Private Secretary

Housing Search



NOTE FOR THE RECORD

HOUSING ACTION TRUSTS

The Secretary of State for the Environment had a brief word with the Prime Minister this morning about the Commons handling of the Housing Action Trust legislation, following the Lords amendment requiring ballots with a majority of those eligible to vote in favour in order to establish HATs.

The Secretary of State said there were two options:

- i) to throw out the ballot provisions in the Commons. But this was likely to be followed by the AMA themselves organising ballots. This could easily lead to a position where the Lords then rejected the necessary Parliamentary Order.

- ii) to accept in the Commons the principle of a ballot but to change details so that the requirement was for the majority of those voting rather than those eligible to vote. The advantage of this approach would be to take away the main argument of the protestors, but it could lead to a position where few if any of the ballots proved to be in favour of establishing HATs.

After a brief discussion it was agreed that the second option should be adopted. I passed this message to Roger Bright in the Secretary of State's office.

PGC.

(PAUL GRAY)

1 November 1988

DCAAOT



file JD A
bc = BS

10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

31 October, 1988.

Dear Roger

REVIEW OF HOUSING SUBSIDY FOLLOWING LARGE SCALE DISPOSALS OF STOCK

The Prime Minister was grateful for your Secretary of State's minute of 24 October and the attached draft consultation paper.

The Prime Minister is concerned about the proposal that local authority community charge payers should be liable for 25 per cent of the outstanding loan charges. The Prime Minister thinks this could mean that local authorities have little or no incentive to transfer their housing stock voluntarily. She therefore believes that the consultation paper should leave open the question of whether local charge payers should be required to meet a proportion of outstanding loan charges; and should put forward as an alternative means of ensuring value for money in the case of voluntary transfers that the Secretary of State, at least for subsidy purposes, determine the disposal price.

I am sending copies of this letter to the Private Secretaries to the members of E(LF), the Attorney General, and Sir Robin Butler.

*Yours
Paul*

Paul Gray

Roger Bright, Esq.,
Department of the Environment.

CONFIDENTIAL

BS

HOUSING Policy # 13



file JD
bc = B9

10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

31 October, 1988.

Dear Roger

HOME OWNERSHIP FOR TENANTS OF REGISTERED HOUSING ASSOCIATIONS

The Prime Minister was grateful for your Secretary of State's minute of 14 October and the attached paper. She has also seen the subsequent comments by the Secretaries of State for Wales, Social Security and Employment, and the Chief Secretary.

The Prime Minister welcomes the more cost effective scheme now proposed, and thinks that it should be given high priority within the Housing Corporation's existing resources. But she thinks that in working up the further detail, consideration should be given to the interest-free loans variant suggested by the Secretary of State for Wales, and to the need to coordinate the arrangements with the planned changes on income support mentioned by the Secretary of State for Social Security.

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

Yours,
Paul
Paul Gray

Roger Bright, Esq.,
Department of the Environment.

ATS



*With the Compliments
of*

PRIVATE SECRETARY

.....31 OCTOBER.....1988

LORD ADVOCATE'S CHAMBERS
FIELDEN HOUSE
10 GREAT COLLEGE STREET
LONDON SW1P 3SL

Telephone:

Direct Line 01-276

Switchboard 01-276 3000

Fax 01-276 6834

6810



cc TV

Lord Advocate's Chambers
Fielden House
10 Great College Street
London SW1P 3SL

Telephone: Direct Line 01-276 6810
Switchboard 01-276 3000
Fax 01-276 6834

The Rt Hon Malcolm Rifkind QC MP
Secretary of State for Scotland
Scottish Office
Dover House
Whitehall
LONDON SW1A 2AU

nblm

file 31 October 1988

1/11

Dear Malcolm

Thank you for sending me a copy of your letter of 21 October.

will request if required

Housing (Scotland) Bill

I am quite content that Part I and related provisions of the Bill be brought into force on 1st December as proposed in your letter.

I am copying this letter to the members of L Committee, Nicholas Ridley and Sir Robin Butler.

Yours truly

Kenny

CAMERON OF LOCHBROOM

scfu

Y DDFA GYMREIG
GWYDYR HOUSE
WHITEHALL LONDON SW1A 2ER

Tel. 01-270 3000 (Switsfwrdd)
01-270 (Linell Union)

Oddi wrth Ysgrifennydd Gwladol Cymru



WELSH OFFICE
GWYDYR HOUSE
WHITEHALL LONDON SW1A 2ER

Tel. 01-270 3000 (Switchboard)
01-270 (Direct Line)

From The Secretary of State for Wales

The Rt Hon Peter Walker MBE MP

31 October 1988

*MBM
ALC
Jico*

Dear Secretary of State

REVIEW OF HOUSING SUBSIDY FOLLOWING LARGE SCALE DISPOSALS OF STOCK: ANNOUNCEMENT

with PR

Thank you for sight of your minute of 24 October to the Prime Minister and for taking on board my point about the possible need for a higher rate of subsidy here. I may well, as you suggest, wish to set a different rate, subject to further discussion with Treasury.

On this basis, I am happy for the consultation paper to be issued and would merely ask for a slight amendment to leave this option open. I suggest that the following be appended to paragraph 17: "Views are invited from authorities on the appropriateness of this rate of subsidy in different circumstances and areas." My officials have already been in touch with yours on this.

Copies of this letter go to the Prime Minister, other members of E(LF), to the Attorney General and Sir Robin Butler.

*Yours sincerely
Keith Davies*

Approved by the Secretary of State
and signed in his absence

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



Prime Minister²
Rec'd 28/10

~~cc Rep~~

PRIME MINISTER

28 October 1988

OPPOSITION TO HAT's

ml

Tuesday

We understand that you may be meeting Nicholas Ridley early next week to discuss the opposition to HAT's.

We too are worried about this opposition here and you may like to look again at my two earlier notes on the subject, which are attached. We believe that the only way to counter the opposition, which is based on a co-ordinated campaign of misinformation, is for the Government to undertake an intensive campaign to publicise the true purpose of HAT's. The policy will provide a better deal for tenants and once they recognise this we should gain their support.

Peter Stredder

PETER STREDDER

VALUE FOR MONEY SEMINAR WITH NICHOLAS RIDLEY

You are meeting Nicholas Ridley tomorrow to discuss value for money. We must secure the value for money improvements promised in our housing reforms. But at the moment, "Tenants Choice" and HATS, two of the key reforms in the 1987 Manifesto are in jeopardy. It is vital that value for money is not interpreted in the narrow sense of saving money but in the wider one of securing major changes in people's attitudes to the role of the State.

The Government should go on the offensive, with a high profile campaign, to regain the initiative and counter the damage done by the opposition campaign of this information.

Tenants Choice

"Tenants Choice" is designed to give poorer tenants more choice over their housing to match that given to the better off under right to buy. It will enable tenants to opt to transfer their estate to an alternative landlord (eg a housing association or tenant co-operative) whilst giving individual tenants an absolute right to remain as a tenant of the local authority.

However this policy has been misrepresented as one hostile to tenants that would allow private landlords to take over council estates against their wishes, increase rents and sell off vacant properties to owner occupiers or relet them at high rents to yuppie incomers. This false impression survives despite the "Tenants Guarantee" which will ensure that new landlords are responsible and continue to make former local authority property available at rents within

OPPOSITION TO HAT'S

Nicholas Ridley has spoken to you about the extent of opposition to the Government's proposals to create HAT's. My minute for your Value for Money Seminar with Nicholas Ridley drew attention to the opposition both to HAT's and 'Tenants Choice'. I recommended a high profile Government publicity campaign to counter this misinformation and hostility. I spoke to Lord Caithness about both these matters last night. He is well aware of the need for more publicity but pointed out that the Department was constrained by a very limited budget for publicity although next year's expenditure is still under discussion in the PES. He is particularly aware of the difficulties faced in HAT's which he says are more severe than the Department had expected.

You may be interested in seeing the attached papers which he handed me. These show the sort of campaign that the tenants groups are whipping up in two boroughs - Tower Hamlets and Lambeth. They also provide direct evidence of union funding and orchestration of this campaign. The two internal DOE minutes are produced by Mr Pelling, the DOE's Greater London Regional Director and Mr Grevatt, the Regional Controller, Housing.

Peter Stredder

PETER STREDDER

*Minutes - to see. I
will hold for next
HAT meeting.*

FROM: A A PELLING
Director London Region

4 October 1988

→PS/Lord Caithness

PS/Mr Trippier

cc

PS/Secretary of State

Mr Ellis-Rees

Mr Ballard

Mr Owen NRO

Miss Caines

Mr Kendall

Mr Jacobs

Mr Rock

*Useful to see
Can we discuss
and go through answer
to the questions posed.*

HOUSING ACTION TRUSTS: ORGANISED OPPOSITION

1. I have received a letter from a tenant on an estate in Tower Hamlets with the enclosed minutes of HAT-TAG, and a leaflet delivered to tenants. The leaflet is damaging to Ministers policy in its insistence that market rents will come.
2. The HAT-TAG organisation seems based on NALGO support at £5,000 initially and a seconded worker though there are demands on Tower Hamlets for "funding, a worker, non-negotiation and non-co-operation". Also some of the Councils Neighbourhood managements are involved. You will see from paragraph 3 that the aim is to "show that tenants will make a HAT unworkable, whatever they (Ministers) choose to do".
3. Paragraph 4 refers to a national co-ordinating body - "No to HATs". It seems training is being co-ordinated from Hulme.
4. The *Womic* note is in paragraph 8. Tenants it is said are being "panicked into applying for Right to Buy".
5. Has another Region any knowledge of the "no to HATs" organisation. I take it that there is a presumption amongst tenants associations that if Hulme estate was left out despite Ministerial interest, then other estates too could work their way out of the HAT procedure.

AAp

A A PELLING

FLATTEN THAT



HAT-TAG

(Housing Action Trusts'
Tenants Action Group)

HAT!

MINUTES OF HATTAG MEETING HELD AT BERNER CENTRE ON 23.8.88.

Those present: C. Harrison, S. Larcombe (Boundary), R. Miah (Berner), S. Miah, M. Rashid (Shadwell Gardens), E. Lilley, S. Watts (Solander Gardens), D. Gibson, D. Charlton (Ocean), D. Relph (NALGO), C. Wilson (Law Centre), G. Hewett (Fed.).

1. Minutes of last meeting.

Steve Watts didn't receive them, and reps from Holland Estate complained likewise, although there are half a dozen names on the mailing list.

It was suggested that only information relevant to HATTAG be sent out with minutes.

The petitions will be presented to the 3 Neighbourhood Chairs.

2. Matters arising.

Gary hasn't made contact with NUPE yet - urgent!
HATTAG wrote to Brenda Collins re. funding, but she is on leave.

NALGO will be able to second a worker to the Housing Bill/HAT Campaign, Gary to liaise with Derek.

The delivery of HAT leaflets which the Fed. has printed will be delivered without problems on each estate, except for the Boundary, and especially Holland, where help and organisation will be required.

4 banners are ready for the Boundary (£35), and 6 ready for the Berner (£35) prepared by the Ocean TA.

The Berner TA is meeting with senior Neighbourhood officers next Friday.

The Fed. has not yet sent a list of neighbouring TAs to HATTAG members yet - urgent!

Shadwell TA, far from being "almost non-existent", is alive and functioning well now.

Dick will send a letter requesting a deputation at the next Council meeting to Mayor Barry Duffie. We will decide what to say at our next meeting, but we want funding, a worker, non-negotiation and non-co operation with the D of E on HATs.

It was AGREED that we should bus some Lords around the estates nearer to the end of September/October prior to their next debate on the issue, with press and media. Interested TAs should meet at a later stage to organise it. Dick will write to the Lords to arrange a date, Chris will help as well. Dave will find out if the Bill will be re-amended before going back to the Lords, which will require a quick reaction from us.

We should try and use the Neighbourhood resources more, always ensuring that we control the content of anything which they put out concerning HATs.

It was AGREED that we should meet with the 3 Neighbourhood Chairs, Chief Execs, and Housing Managers on Thursday 1st of September, (although this meeting is proving difficult to arrange, and may have to be set back a week).

We should discuss: the Neighbourhoods' response so far,
the Council's response,
what resources, support they will provide,
help with leafletting
no negotiations, co-operation,
co-ordinate ballot on our terms,

The meeting should be firmly chaired by a tenant rep, allowing no chance for the politicians to attack each other, or dominate the meeting. They should simply say what support they can give. (Can we also ask Jeremy Shaw to provide minutes of all meetings with the D of E at which HATs were discussed?)

3. Meeting with D of E.

It was AGREED that we want to meet Ridley first in mid/late September before meeting with consultants and D of E officials, who would fore-warn and fore-arm a minister. We should send them list of questions before this, so that Ridley would not be able to say on the night "I'll have to get back to you on this", (but is this not the same as meeting with consultants?). The purpose of any meeting should be to demonstrate the strength of opposition, to shock Ridley, and show that tenants will make a HAT unworkable, whatever they choose to do. Derek will try and find out if the consultants are going to meet reps from the Council. (Gary has contacted Ridley's office and suggested the 19th, 20th, 26th, 27th September).

4. National HAT meeting.

In Birmingham it was agreed to set up a national co-ordinating body called "NO TO HATS", which will support a national ballot asking simply yes/no, run by the Electoral Reform Society, before the Bill goes to the Commons. Estates should show how they do not meet the criteria for HATs, and present their petitions nationally in the first week in October. There will also be a training day at Hulme in Manchester for 6 reps from HATTAG. Sarah will check that the Council is willing to go along with the national ballot.

5. Charter of demands.

It was AGREED that IAs should discuss this at their next meeting on each of the estates, and come back with proposals.

Tower Hamlets Federation of Tenants

YOUR HOME AT RISK!

Oxford House
Derbyshire St
London E2
Tel 01 739 6778

OUR HOME
AT RISK!!!

THE GOVERNMENT HAS RECENTLY ANNOUNCED THAT IT INTENDS TO TAKE OVER YOUR ESTATE, AND TRANSFER YOUR HOME TO A HOUSING ACTION TRUST (HAT), BEFORE SELLING IT OFF TO A PRIVATE LANDLORD OR HOUSING ASSOCIATION.

The HAT would work like the LDDC in the Docklands, with a COMMITTEE of people APPOINTED by the GOVERNMENT - UNELECTED and UNACCOUNTABLE to local people.

OUR HOME
AT RISK!!!

At present, with the COUNCIL as your LANDLORD, if you're not happy, you can VOTE THEM OUT, but the HAT would have TOTAL CONTROL over YOUR ESTATE. They could DEMOLISH your BLOCK; they could MOVE you OUT; they could BUILD ROADS and OFFICES - and YOU would have NO CONTROL AT ALL.

OUR HOME
AT RISK!!!

After 3-5 years, YOUR ESTATE would then be SOLD to a PRIVATE LANDLORD or HOUSING ASSOCIATION. You would have an "ASSURED TENANCY", which means that you would pay a "MARKET RENT" i.e. much more than you pay now; AND you would have LESS SECURITY i.e. you could be EVICTED for late payment of rent with NO NEED for DEBATE in the COURTS.

OUR HOME
AT RISK!!!

MANY TENANTS on YOUR ESTATE will probably be FORCED to LEAVE, because there will be a 'CEILING' on HOUSING BENEFIT, which will NOT be allowed to rise as high as the highest rents.

If you are a HOME-OWNER, YOU will be affected ASWELL, because after the improvements, YOU will have to pay HIGHER SERVICE CHARGES - and the HAT will even be able to COMPULSORILY PURCHASE YOUR HOME, and MOVE YOU OUT!

OUR HOME
AT RISK!!!

After INVITING the Government to look at ways of setting up a HAT, the COUNCIL has now been forced to do a U-TURN, and has said that it is "UNANIMOUSLY OPPOSED" to the idea....(Although they are still WRITING LETTERS to the Government - AGAINST the WISHES of tenants on YOUR ESTATE).

It is STILL POSSIBLE to STOP THE HAT. It will NOT take over YOUR ESTATE until the HOUSING BILL is made law, in about SIX MONTHS' time. Meanwhile there is a LOT TO BE DONE if YOUR ESTATE is to be SAVED.

The ONLY WAY to STOP THE HAT is to TALK to your NEIGHBOURS; GET TOGETHER and ORGANISE on EVERY ESTATE; GET INVOLVED in your TENANTS' ASSOCIATION; FORM a TENANTS' ASSOCIATION if there is NOT one in YOUR BLOCK: put "NOT FOR SALE" POSTERS in your WINDOWS: COLLECT PETITIONS; ASK your COUNCILLORS for their SUPPORT; and JOIN THE TOWER HAMLETS FEDERATION OF TENANTS ! WE CAN HELP YOU !

..get together and get things done



THESE ARE READY FOR COLLECTION / DELIVERY

6. NALGO Report back.

there had been a national meeting of the 6 affected NALGO branches, who would be:
issuing publicity for members and tenants in 3 weeks (will tenants be consulted beforehand?),
setting up a national co-ordinating body,
following a policy of non-co operation in Southwark, although more work needs to be done in Tower Hamlets if such a policy is to be effective,
proposing setting up a fighting fund of £5,000 which TAs can draw on,
seconding a worker to the campaign,
organising a fund-raising social, probably at St. Hildas on the Boundary, where there is room for a non-alcohol area, Sarah will liaise with Derek,
asking the Council to restore funding for the Federation,
press the Council to release officers to provide more support,
try to arrange help in delivering the Housing Bill leaflet to every flat in the Borough.

7. Co-ordination on the estates.

Because of a whole range of problems on the Holland Estate, they have not been involved in HATTAG so far, and consequently are going to meet with the D of E, which is contrary to HATTAG policy. They have not been receiving the mail-outs, the Fed. will ensure that they do in future.

It was AGREED that Dick, Dave and Mr Rashid from Shadwell will meet the 3 people going to see the D of E beforehand, so that we can stress our policy of making things as awkward as possible.

8. A.O.B.

Tenants are being panicked into applying for the Right-to-buy their flats, believing that they will be able to cash in on the rise in land prices and avoid the worst effects of a HAT. It was AGREED that we should produce a leaflet showing the dangers of such a decision, as a matter of URGENCY, which should be delivered to each flat. Dick, Chris and the Fed. will work on it.

THE NEXT MEETING OF HATTAG WILL BE AT
7.30pm
ON TUESDAY 6TH SEPTEMBER,
IN THE DINING ROOM,
AT TOYNBEE HALL,
COMMERCIAL STREET, E1.

THE MEETING WITH THE NEIGHBOURHOODS WILL (HOPEFULLY) BE
ON THURSDAY 1ST SEPTEMBER,
VENUE TO BE ARRANGED.

copy was

DELETED IT SAID:

CAN THEY BE ASKED NOT TO NEGOTIATE
BUT SIMPLY TO STATE THEIR OPPOSITION.

Mr Fawcett

→ PS Lord Cockfield
you asked to see.

Copy PS to Thrippier

AS 3/10

cc Mr Pelling 3/10
Mr Jacobs
Mr Lawson (Inf)

PROPOSED HAT : LOUGHBOROUGH ESTATE, LAMBETH

Note of a Meeting with the Tenants Association, 27 September 1988

1. Mr Pelling and I attended a meeting chaired by Mary Clark, Chairman of the Tenants Association, at the Sports & Social Club.

2. We were invited for 8pm. However we ascertained from the police, Sgt Williams (tel: 326 2019 or 1212 in an emergency) and PC Graham, that the meeting was to start at 7.30pm. I therefore deduced that the tenants were again going to use Nick Raynsford as warm-up man and so we arranged to arrive at 7.30pm. This proved helpful, since Mr Raynsford's presentation was undoubtedly more restrained and accurate and Mr Pelling was able to start with a positive statement and countered most of Mr Raynsford's points. Mary Clark chaired the meeting well, taking questions one at a time and insisting on silence. Some three quarters of the questions were sensible, a considerable improvement on Angell Town. Despite the microphone not working properly and various interruptions, the meeting was quite constructive. We left at 9.45pm.

3. The police attended the meeting. Although Lambeth Council had said that they would not attend I spotted Ross Fraser. There was someone from Thamesmead and one of their local papers, also Dora Boatman and others from Angell Town. Numerous photographs were taken.

4. The main points made by the tenants were:

(a) they voted unanimously that there should be a ballot to decide whether or not a HAT should be established;

(b) they would prefer the money for improvement to be given direct to the local authority or to the tenants;

(c) they are very concerned about levels of rents and service charges and security of tenure, particularly if housing associations or private landlords take over from the HAT and are expected to pay a high price;

(d) they want a right to return to the local authority from the HAT, therefore an assurance that the LA will be able to repurchase;

(e) they want a strong tenants' voice on the HAT;

(f) they are worried about their right to return to their flats after any decanting for improvements.

The last point is new to me, but I think it was in response to a hare raised by Nick Raynsford and was not important in itself.

4. Can you please deal with the following action points:

(i) Pass on to the consultants Mary Clark's wish that tenants should not answer any questions from the consultants but simply state that they want a ballot.

(ii) It was alleged that some of the consultants were only interested in answers to factual questions and were not prepared to listen to tenants' views. The names of Steve Walker and Marjory Bulos were mentioned, but I was not clear whether the criticism referred to this specifically. We should discuss at the next progress meeting.

(iii) We have promised that when the consultants' report is published we will send copies to the Tenants Associations.

(iv) It was alleged that there is a conflict between the letter to occupiers and the leaflet on rent policy. I think there is something in this, but what line should we take?

(v) We were treated to a speech from a Peter Lever, who claimed to live in Thamesmead but work for Lambeth Council. He appeared to be totally deranged and his information about Thamesmead was almost entirely wrong. Can Thamesmead Town tell us anything about him?

(vi) We promised a written answer to the list of questions attached.

J G GREVATT
28 September 1988

ENC

answers promised

QUESTIONS TO THE GOVERNMENT'S HAT ADVISORS

This list of questions has been prepared by William Dixon and David Graves, both of us tenants on the estate. They are based on our reading of the Bill and various other documents emanating from the Government and its consultants. We hope that they will help people to get the most out of the meeting.

We have the chance to ask these questions and any others. People should be allowed to press the advisors to give better answers if they appear to be evasive.

1. The government's brief to its consultants says that they should pay regard to the scope for decanting tenants. This makes it clear to us that tenants will be moved out of blocks. Will tenants have a right to return to the flats that they have put time and effort into making their homes.
2. Would you say that the HAT's powers to sell off any buildings or land means that you cannot guarantee the security of peoples existing accommodation.
3. It is part of the government's policy that rents should be freely negotiated between landlords and tenants. Would you like to be a tenant without any property negotiating for a home with a landlord who has more homes than he needs to live in.
4. Do you agree that the most important factor in affecting the outcome of these negotiations will be the landlord's power to deprive a sitting tenant of their home, and that landlord's powers to evict tenants and to harass them with court proceedings is increased by the Housing bill.
5. What level would you expect market rents to reach for a two-bedroom flat in this area.
6. We have been told that any new landlords will have to charge rents affordable to people on low incomes. What is an affordable rent. Will you be specific. Won't it just be what a landlord is able to extort from people who don't want to lose their homes.
7. Would you agree that for people on low incomes the new "affordable rents" will simply mean unaffordable furniture, unaffordable new clothes, unaffordable treats for the kids, unaffordable holidays and unaffordable healthy food.

8. Would you agree that the new landlords would be able to raise their rents above the maximum housing benefit set by the government as £62.50 per household for Lambeth. Would it help them get return on their investment if they charged "just a few pounds more" if they knew that people would pay to avoid legal harassment or losing their home.
9. How do we know they wouldn't introduce all sorts of extra charges for maintenance and repairs.
10. We are told that the Secretary of State may choose a tenant or two to be our representatives on the HAT. Why should we accept someone he has appointed as our representative.
11. Isn't it the case that the other members of the board won't have to listen to the appointed tenant, but that the board will use the existence of the appointed tenant representatives to say that they have "consulted" with them. What structure will there be to make sure this doesn't happen.
12. The consultancy brief issued by the Government to the Property Investment Company asks them to look at the scope for decanting tenants. What power will tenants have to influence the actual decisions over which blocks are decanted and which homes are acceptable as alternatives. How will tenants exercise this power in decision making.
13. One of the other factors the Property Investment Company is to take into account is the amount of available free land for development. What influence will tenants have over decisions about what use to make of this land, eg. improved open spaces etc.
14. Another factor you are taking into account in your consultants' brief for the Property Investment Company is the extent to which people are "dependent on income support" in areas where you want to impose HATs. Why do you consider this as relevant. Is it because you think that these people need HATs, or because you want to attract richer people into the area to make more money and that means taking housing away from poor people.
15. Do you agree that the government is effectively trying to abolish our tenancy agreements with the Council (which were, in fact, freely negotiated) without giving us or the council any choice in the matter. And that from the point of view of democracy and freedom, this is a very serious issue.
16. Where does this leave you as "independent consultants". Would you be happy to carry on working with a HAT that had been set up in a community that is opposed to it. Would you resign if the right to vote is not in the Bill when it finally becomes law.

the means of low income families.

Research Confirms the Negative Picture

DOE research earlier in the year showed that tenants regard:

- local authorities as inefficient but safe;
- housing associations as unknown and therefore risky;
- private landlords as known and feared.

Tenants generally were hostile to transferring to an alternative landlord although younger tenants and those on problem estates appeared to be less hostile than average.

The correspondence received by DOE during the passage of the Bill reinforces this picture. When the right to buy legislation was before Parliament, most of the correspondence from tenants was positive, requesting information about how and when they would be able to buy their homes. By contrast, most of the correspondence on "Tenants Choice" has expressed concern about the impact of the legislation.

Regaining the Initiative

It is clear that in order to avoid a major public relations disaster, the Government needs to mount a major advertising campaign. Initially, this needs to concentrate on explaining the facts to tenants. Once some successes emerge these should be publicised as models for others to follow.

The Housing Corporation, who will take on responsibility for promoting Tenants Choice, agree that such a campaign is

necessary.

However, Nicholas Ridley is proposing to spend only a modest £0.75 million this year on a low key press campaign. He appears to have accepted advice from his officials (who have always believed "Tenants Choice" of marginal importance) that a higher profile campaign would serve only to associate the Government more firmly in the public mind with an unpopular policy.

This is a policy of despair; Tenants Choice is one of the key elements in our housing policy and we should be going on the offensive. Far from being a threat to tenants it is a life line to those who will otherwise remain trapped in sink estates.

HATS

There is a similar lack of vision in the way DOE Ministers are promoting HATS. These were designed to bring central government funds and better management to bear on the worst areas of council housing. Yet tenants have been led by others to believe that it is a policy designed to sell off their estates to "property speculators and yuppies."

The DOE have commissioned a report from consultants, led by Patrick Gardener of PIC (a subsidiary of the TSB). His work has already shown the extent to which tenants have been misinformed about the aims of HATS. His task has been made more difficult because local authorities are refusing him any co-operation, tenants groups are uniformly hostile and some of the local authorities may even physically bar his team from the estates. Yet when he has been able to talk to tenants they have reacted favourably when they understand the Government's real intentions.

HATS are another key element of housing policy; the

Government must similarly undertake a persuasive publicity campaign to inform tenants and gain their support.

Conclusion

The Government's key housing policy reforms are in danger of being thwarted unless there is a much higher profile campaign to sell "Tenants Choice" and promote HATS. There should be a major advertising campaign, on the lines of those promoting the Enterprise Initiative and Action for Jobs, designed to inform tenants about the new opportunities created by the Housing Bill and the safeguards involved. These policies are inherently attractive and once these are properly understood, the Government will gain credit from association with them.

Peter Stredder

PETER STREDDER

CONFIDENTIAL

PRIME MINISTER

REVIEW OF HOUSING SUBSIDY FOLLOWING LARGE SCALE DISPOSALS OF STOCK

Mr. Ridley's minute of 24 October (Flag A) seeks agreement to issue a consultation paper on the rules for calculating housing subsidy when local authorities make large scale disposals of their housing stock.

His revised proposals adequately deal with a query you had raised in the earlier round of correspondence ^{about} for the links with ring fencing of housing revenue accounts.

But his latest proposals give rise to a further potential difficulty concerning the financing arrangements if, after receipt of disposal proceeds, there are residual loan charges. Mr. Ridley proposes that the Government should fund 75 per cent of any such residual charges with 25 per cent still falling to local authority community charge payers. Peter Walker thinks that the 25 per cent figure is too high and has suggested an alternative of 10 per cent. The Policy Unit (Flag B) go further and argue that it would be a mistake to leave local authorities with any of the liability to outstanding loan charges. They feel this would leave local authorities with no incentive to transfer their housing stock voluntarily. They see little force in the counter arguments Mr. Ridley has put forward, and suggest that worries about local authorities accepting too low a price can be dealt with via the Secretary of State's approval powers.

Content with Mr. Ridley's 25 per cent proposal?

Or

Prefer the Policy Unit approach of the consultation document setting out a range of options leaving open whether local authorities should meet a proportion of outstanding loan charges?

PLG
PAUL GRAY

28 October 1988

CONFIDENTIAL

SL3BFD

This is the valid approach. The other would give rise to enormous resentment.

CONFIDENTIAL

PRIME MINISTER

HOME OWNERSHIP FOR TENANTS OF REGISTERED HOUSING ASSOCIATIONS

Mr. Ridley's minute of 14 October (Flag A) seeks agreement in principle to introduce a revised cash incentive scheme to assist tenants of charitable housing associations to move out and buy homes in the private sector, so releasing vacancies for re-letting.

The scheme is supported by the Policy Unit (Flag B) on the basis that it would be much more cost effective than the present arrangement. Policy ^{U.F.} suggest this new scheme should be given the highest priority in the Housing Corporation's overall programme.

Principal comments from other Ministers are:

- Peter Walker (Flag C) suggests interest free indexed linked loans rather than outright cash grants;
- ✓ the Chief Secretary (Flag D) insists on funding being contained within existing resources;
- Mr. Moore (Flag E) raises some worries about possible implications for benefit expenditure if the new scheme is not carefully meshed in with planned changes on income support arrangements;
- Mr. Fowler (Flag F) suggests giving priority to schemes involving relettings to people moving into an area to take up jobs.

Content to endorse Mr. Ridley's proposal subject to:

- (i) ✓ consideration being given to the interest free indexed linked loans alternative?

CONFIDENTIAL

- (ii) ✓ urging the Housing Corporation to give priority to this scheme, within existing resources;
- (iii) ✓ careful co-ordination with DOSS on the possible implications for benefit expenditure?

Yes - Hartigan
not

PLCG

PAUL GRAY

28 October 1988

SL3BFC

Mac

PRIME MINISTER

*Bridge - See
Wick's note.*

79 28/10

Nicholas Ridley would like half an hour with you before you go to Poland, to discuss the position on Housing Action Trusts. He feels that the policy is running into difficulties. He has already mentioned the near riot David Trippier faced when he tried to speak to some tenants recently.

Agree to see Mr. Ridley for half an hour before the Polish visit?

N.C.U.

N. L. WICKS

27 October 1988

*Yes - would
not*

*He & his wife when to
come to lunch on
Sunday?*

*on the Polish speeches he
could 'do' HATS over
lunch not*

We are working

~~25/10~~
4.30 pm on
Tuesday *

John
after cabinet
and now
All from
Tg 31/10
(51)

Mr Gorman,
Please, please
a 1/2 hour please?
N.C.W

PRIME MINISTER

Nicholas Ridley would like half an hour with you before you go to Poland, to discuss the position on Housing Action Trusts. He feels that the policy is running into difficulties. He has already mentioned the near riot David Trippier faced when he tried to speak to some tenants recently.

Mrs G
I
U

Agree to see Mr. Ridley for half an hour before the Polish visit?

N. L. WICKS

27 October 1988

N.

* Mr. Ridley is giving a 'live' TV interview on Sunday in Glos.

Tg.
28/10

PRIME MINISTER

26 October 1988

REVIEW OF HOUSING SUBSIDY FOLLOWING LARGE SCALE DISPOSALS
OF STOCK: ANNOUNCEMENT

Nicholas Ridley has minuted you again about his proposals for modifying housing subsidy to take account of disposals of local authority housing stock. I believe it would be a major blunder to let these proposals see the light of day in their present form. They will exacerbate the difficulties we already face with implementing Tenants' Choice and cause confusion about the Government's attitude to diversifying the ownership of local authority housing.

THE WRONG SIGNALS AND INCENTIVES

The essential problem with these proposals is that if a local authority disposes of council housing (either voluntarily or involuntarily through Right to Buy or Tenants' Choice) at a price insufficient to redeem all the outstanding debt its chargepayers will have to meet each year 25% of the outstanding loan charges. If the stock remains in local authority ownership they pay nothing because under the new system all subsidies to local authority housing will be from central government. Under these proposals:

- What incentive is there for local authorities to transfer stock voluntarily?
- What justification is there for making chargepayers pay where the transfer is involuntary?

ARGUMENTS IN FAVOUR OF NICHOLAS RIDLEY'S PROPOSALS

Nicholas Ridley argues that his proposals are necessary to ensure that local authorities:

- negotiate the best price when disposing of stock;
- are not encouraged by a 100% subsidy of the shortfall between disposal price and loan charges to neglect housing that they expect eventually to transfer to the private sector.

Dealing with the first of these arguments, local authorities have no control over the price of disposal under "Tenants' Choice" or "Right to Buy" which is determined by the District Valuer. In the case of voluntary transfers the local authority has every incentive to get the best price where this is likely to be more than sufficient to pay off loan charges because it can spend part of the surplus. Only when the local authority expects the price to be less than sufficient would the proposed change in the subsidy system provide no financial inducement to achieve best price.

However all such disposals have to be approved by the Secretary of State and negotiations on disposals already under consideration have taken a close interest in the price. The Secretary of State could withhold approval if he regarded the price as unreasonably low. Alternatively he might determine a notional higher price for subsidy purposes.

It is difficult to counter the second argument quite so directly since it is theoretical. In practice, whether local authorities look after their council housing depends on a variety of factors of which the possibility that they may eventually dispose of it is only one. All the other

pressures of our housing policies, through competition and better financial management, are to encourage better stewardship of the council stock.

CONCLUSION

It would be a mistake to allow Nicholas Ridley to publish his consultation document unaltered since it would call into question the Government's commitment to the policies on diversifying ownership of the council house stock contained in the current Housing Bill. These policies are already under attack from the Government's opponents.

We recommend that instead the paper should be amended as follows:

- it should leave open the question of whether local charge payers should be required to meet a proportion of the outstanding loan charges on disposals of stock;
- it should put forward as an alternative means of ensuring value for money in the case of voluntary transfers (the only ones where the local authority has direct influence on the disposal price) that the Secretary of State could, at least for subsidy purposes, determine the disposal price.

Peter Stredder.

PETER STREDDER

cjs



1 MARSHAM STREET
LONDON SW1P 3BB
01-212 3434

My ref:

Your ref:

The Rt Hon John Wakeham MP
Lord President of the Council
Privy Council Office
Whitehall
LONDON
SW1

NBM

R16

26/10

26 October 1988

Dear Lord President,

See with PC

Thank you for your further recent letter about the Housing and Local Government Bill.

You suggest once again that it would be helpful to the draftsmen to indicate the order of priority that should be attached to the various provisions. In my letter of 21 July I set out the provisions which I regard as absolutely essential. The attached Annex A sets out the state of play on these. All of them must be in the Bill when introduced and what we now need is for the draftsmen to produce rapidly draft Clauses - we have been supplying Instructions steadily since the beginning of August and there is little further material to be sent. It is particularly important that we should receive soon Clauses on those items which will give rise to substantial elements of the Bill, since inevitably these are likely to need a good deal of discussion with the Department. I am thinking of the provisions on local authority capital finance, housing accounts and subsidies, the conduct of local authority business, and local authority involvement with companies, together with the remaining clauses on the home improvement grant package.

One of the items referred to above is making certain amendments to the Local Government Finance Act 1988 which there was not enough time to do while the Bill was before Parliament. Since July we have become aware of certain difficulties with the Act and there are other related matters on which we need to legislate. Likewise Counsel is advising that time will not allow all of the consequential changes being made in the current Housing Bill, and clearly we need to proceed with these at the earliest possible moment. Instructions on these points are being put to Counsel.

Following our meeting in July, I put on one side legislation on some 11 items as being of lesser priority. I have now reviewed those and find that Instructions are ready or in an advanced state on 4 or 5 of these, none of which should require more than a single clause. Instructions will therefore be put to Counsel

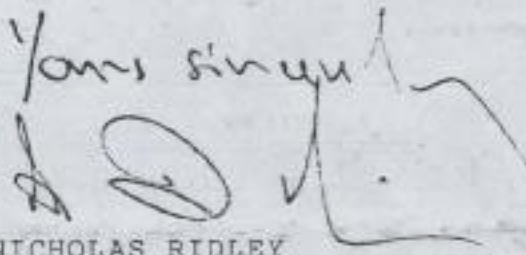
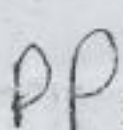
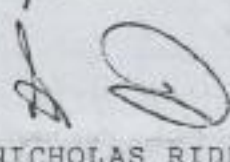



shortly on these in the hope that he can find time to deal with them, but not, of course, at the expense of priority items.

I am, of course, also aware of requests from colleagues to include other provisions in this Bill. For example I recently agreed to a request from Kenneth Baker to repeat Section 2 of the Education (Grants and Awards) 1984.

I am disappointed that you feel unable to agree at this stage that the Local Government Ombudsman provisions should definitely be included in this Bill. A first draft of the Clauses is available to be discussed with the Department and I believe our proposals will be welcomed so they are unlikely to take up much Parliamentary time. I hope you will feel able to reconsider this.

As before I am copying this letter to the Prime Minister, Nigel Lawson, Kenneth Baker, Peter Walker, Malcolm Rifkind, John Belstead, David Waddington, First Parliamentary Counsel and Sir Robin Butler.

Yours sincerely

PP   
NICHOLAS RIDLEY

(Approved by the Secretary of State
and Signed in his Absence)

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ANNEX A

ITEMS AGREED AS PRIORITY IN JULY AND LIKELY TO LEAD TO SUBSTANTIAL NUMBERS OF CLAUSES OR SCHEDULES

1. New system of controls over local authority borrowing and capital expenditure (main instructions sent to Counsel 14 October).
2. Reform of local authority housing accounts and subsidies (Instructions sent 30 September).
3. Reform of the system of home improvement grants (Instructions sent 1, 5 and 31 August and 2 September - 26 clauses and 1 schedule drafted).
4. Controls over local authority involvement in companies (Instructions sent 20 September).
5. Implementation of main proposals on the conduct of local authority business (Instructions sent 25 and 26 August, and 30 September).

ITEMS AGREED AS PRIORITY IN JULY AND WHICH SEEM LIKELY TO REQUIRE ONLY 1/2 CLAUSES

6. Amendments time did not permit being made to the Local Government Finance Act 1988 (Instructions sent 29 July - draft schedule received).
7. Power to capitalise specific Exchequer grants to local authorities paid annually on loan charges (Instructions sent 31 August).
8. Variations to housing subsidy systems to permit recalculation after the disposal of housing stock (Instructions sent 14 October).
9. Power to give grants to local authorities for emergency expenditure (Instructions sent 21 September).
10. Power to authorise charging for local authority services (3 clauses drafted).
11. Power to transfer new town houses at tenanted market value (Instructions sent 31 August).
12. Abolition of Homeloan Scheme (Instructions sent 21 October).
13. Declaratory provision that local authorities do not need to own council housing (1 Clause drafted).
14. Extension of CRE code-making power (1 Clause drafted).
15. Power to give financial support to British Board of Agreement (Instructions sent 11 August).

HOUSING - Policy #113



DEPARTMENT OF HEALTH AND SOCIAL SECURITY

Richmond House, 79 Whitehall, London SW1A 2NS

Telephone 01 210 3000

From the Secretary of State for Social ~~Security~~ Security

cc PL

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

25 October 1988

HOME OWNERSHIP

file with PL

You copied to me your letter of 14 October to the Prime Minister about a proposal to replace HOTCHA with a cash incentive scheme.

In general, I would support your proposal - especially if it results in more vacancies being available to house homeless families. There are some implications, though, in terms both of benefit expenditure and of the financial effects on individuals.

Firstly, from the Income Support point of view, lower cash payments will mean higher mortgages for purchasers and, in turn, higher mortgage interest payments. Under our existing system, those on Income Support will generally have the full additional mortgage interest payments met in their benefit, in the same way as those receiving a HOTCHA discount. (As you may know, right to buy purchasers get help only up to the level of their previous eligible rent for housing benefit purposes.) Income Support costs would be further increased if there were an expansion in the numbers of participants.

Secondly, there could also be cost implications for Housing Benefit from a combination of the effects of this proposal and rent deregulation. As you know, Housing Benefit payments are likely to be higher for tenancy agreements entered into after deregulation in January 1989. If the cash incentive scheme leads to more tenancy change-overs, it could also lead to increased rents and higher Housing Benefit expenditure. If those who move into the rented accommodation tend to have lower incomes than the previous tenants (as seems likely), Housing Benefit expenditure will be further increased. Possibly, however, these effects may be balanced in overall public expenditure terms by a reduction in expenditure on bed and breakfast accommodation for homeless families.

E.R.

We are currently reviewing the whole subject of increases in Income Support where existing claimants take on new or higher loan commitments, with the aim of introducing measures to combat abuse. Proposals coming out of our review are not likely to result in claimants who purchase a house under the new cash incentive scheme being refused help with their mortgage interest payments altogether. However, we would be concerned if Income Support payments cushioned people from the financial impact of the change from HOTCHA. We will need to keep this in view when considering the details of how your proposals mesh with our own. We would certainly expect to include these cases in any provisions to limit help with mortgage interest for ex-tenants.

It is not clear when the new cash incentive scheme would begin but I imagine it would be unlikely to be much before next spring, given the need for consultation. We would expect to announce changes arising from our review early next year and to implement them in April. They will be controversial and we will all need to consider carefully the timing of any measures which reduce the help available to home owners: certainly these will be seized on in debate by our opponents.

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



JOHN MOORE

HOUSING Policy pr 13



CONFIDENTIAL



cc P/L

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

25th October 1988

Dear Nick,

HOME OWNERSHIP FOR TENANTS OF REGISTERED HOUSING ASSOCIATIONS

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

I welcome your proposal to wind up the HOTCHA scheme and I am content for you to bring forward detailed proposals for a cash incentive scheme similar to that agreed for Local Authorities.

However, my agreement, must be on the condition that you will fund the scheme in future without seeking any additional resources for the purpose. Given the lower unit cost of grants, I would not expect to see a replacement for HOTCHA leading to greater demands on expenditure: indeed, I should expect the reverse, I should be grateful if your officials could pursue with mine what output targets for given resource levels might be set for a scheme and whether, if we could not be sure that the targets would be delivered, regional cost limits for grant should be set.

I was pleased to note your proposal that any scheme should be reviewed and evaluated within two years of operation.

I am copying this letter to the Prime Minister and other members of E(LP) Committee and to Sir Robin Butler.

Yours Ever,
 John Major

JOHN MAJOR

HOUSING: Policy PTIB.

26. X
M60

CONFIDENTIAL

capu

2 MARSHAM STREET
LONDON SW1P 3EB
01-212 3434

My ref:
Your ref:



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

nban

PLG

W/O

25 October 1988

Dear Peter

PLG

Thank you for my copy of your minute of ~~19~~ October to the Prime Minister.

As my office explained, this unfortunately arrived only late on Thursday afternoon, when we were in the very process of arranging for the minimum turnout amendment to be tabled in the belief that we were clear on Wednesday evening to do so.

I am nevertheless grateful for your suggestion, which we can perhaps return to if events at Report require us to consider any further concession. At present, however, I am inclined to think that the line that Malcolm Caithness and I have followed was the right one at this stage. A major reason for this is tactical: the minimum turnout concession was very successful in securing a majority at Committee stage for the voting procedures in general, was based on an Opposition proposal and will be what the House is expecting to see on Report. Very much for the reasons you give, we have made the minimum turnout provision in the amendment (a copy of which is attached) 50%, so that the concession does, at least, take the form you preferred in this respect.

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

John
Nicholas

NICHOLAS RIDLEY

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After Clause 59—continued

and their tenants and local authorities and their tenants to advise the Housing Corporation in the exercise of its powers and duties under this Part and Parts III and IV below of the Act.”)

D133

Clause 59

BY THE LORD SANDERSON OF BOWDEN

Page 46, line 17, leave out from beginning to (“the”) in line 19 and insert (“and

(b) except as provided in section 50(1) above”)

D134

Clause 55

BY THE LORD McINTOSH OF HARINGEY

leave out Clause 5

D135

Schedule 2

BY THE LORD McINTOSH OF HARINGEY

Page 108, transpose lines 13 to 24 to end of line 26

D136

Clause 102

BY THE EARL OF CAITHNESS

Page 79, line 34, leave out (“(2)”) and insert (“(2 (b))”)

D137

Clause 102

BY THE EARL OF CAITHNESS

Page 79, line 17, leave out from (“have”) to (“above”) in line 18 and insert (“given notice as mentioned in subsection (2) (b))”)

D138

Clause 102

BY THE EARL OF CAITHNESS

Page 79, line 5, leave out from (“if”) to (“of”) in line 6 and insert (“in response to the consultation under section 101 above,—

(a) less than 50 per cent of the tenants to whom that section applies have given notice of their wishes in such manner as may be prescribed; or

(b) the number of tenants to whom that section applies who have given notice in that manner”)

Housing Policy P13

C 002



Y SWYDDFA GYMREIG
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01-270 (Llineli Union)

WELSH OFFICE
GWYDYR HOUSE
WHITEHALL LONDON SW1A 2ER
Tel. 01-270 3000 (Switchboard)
01-270 (Direct Line)

Cudd wrth Ysgrifennydd Gwladol Cymru

From The Secretary of State for Wales

THE RT HON PETER WALKER MBE MP

24 October 1988

N Ridley

HOME OWNERSHIP FOR TENANTS OF REGISTERED HOUSING ASSOCIATIONS

I have seen your minute of 14 October to the Prime Minister.

I agree that HOTCHA should be wound up. Under HOTCHA, the tenant can buy a house of his own choosing in the private sector. The council tenant exercising his right to buy can only acquire the council house he happens to live in. It certainly seems unduly generous therefore to give the HOTCHA tenant the same financial inducement to purchase as the council tenant.

I agree too that we should seek to replace HOTCHA with a cost effective scheme for inducing tenants to move out and generate lets in areas of high demand for rented housing. However, rather than make outright cash gifts to tenants as you propose, I believe that we should base the scheme on interest free index-linked loans repayable on sale, of the kind that we envisage in the context of flexi-ownership schemes. A scheme on such a basis would clearly be more cost effective in the medium term. I should be grateful if my officials could be involved in drawing up detailed proposals.

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

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



Prime Minister

REVIEW OF HOUSING SUBSIDY FOLLOWING LARGE SCALE DISPOSALS OF STOCK: ANNOUNCEMENT

Several colleagues have commented on my minute to you of 27 July and the accompanying paper by officials, about which your Private Secretary wrote to mine on 29 July and 15 September. My officials have now drafted the attached Consultation Paper, which I would like to publish as soon as possible. Two questions need resolution before we can publish it, however: one that you raised on your own initial reading of the paper, and one from Peter Walker.

You will remember that I proposed new rules for calculating housing subsidy after local authorities had disposed of stock, whether a wholesale disposal of all their stock or a lesser sale. The present rules are anomalous in that authorities could continue receiving subsidy even where they incurred no further expenditure on the dwellings sold, or could fail to be eligible where they were left with some outstanding loan debt. This is of particular concern to those authorities that are contemplating the wholesale disposal of their stock, who we wish to encourage, and also to authorities that might be left with unredeemed debt from the sale to a Housing Action Trust. I proposed that subsidy would cease after disposal unless there were residual loan charges, that we should fund those 75%, leaving 25% to the authority as an incentive to gain a keen sale price. I also advocated a safety net in the case of HATs to ensure that other tenants (or community charge payers) did not end up with a net burden from a disposal that had been imposed upon them.

You had questioned how these proposals would relate to ring fencing of housing revenue accounts (HRAs) from 1 April 1990. There is an apparent discrepancy, but it is only apparent. Under the new financial regime we shall prevent most transfers across



the ring-fence. Subsidy will be at 100% of the notional deficit on the account, but there will be a powerful discipline on the authority to run its affairs economically: because any inefficiencies would be paid for wholly by the HRA, in effect by the tenant. After the disposal of stock subsidy would cease except where loan charges remained. I had proposed that 25% would then be financed by the authority, without support from rate support grant. This, or a similar figure, is essential to give the authority a financial interest in securing the best price. Initially, this 25% would be met by rate fund contributions. Under the new regime the same principle would apply although the mechanisms will differ. The legislation would provide that residual loan charges would be inadmissible as a charge to the HRA: ie they would be outside the ring fence and receive the appropriate subsidy ('residual debt subsidy') direct. This would make sense, since those residual loan charges would have nothing to do with management of the council's current housing.

Peter Walker's point concerned the exact percentages. He would prefer to see only 10% of residual loan charges fall to the local authority. We face here two conflicting aims: we want to remove the disincentive to voluntary disposal of stock (which argues for a low percentage funded locally), but we also want to create an incentive to maintain investment in the stock and to obtain the best sale price (which suggests the percentage should not be too low). Other colleagues have accepted the 25% proposal. My solution would be to take powers to set the percentage by administrative action, to announce 25% to begin with, but to review this if experience suggested it was proving to be a disincentive to voluntary disposals. Nor would I object if Peter Walker wants to set a different rate of residual debt subsidy in Wales.

Lawyers in my Department have now also been advised by the Law Officers' department that the proposal to implement the new rules



from April 1989, ie. before legislation could be enacted, would be acceptable.

I would now like to announce the conclusions of the review and to publish the attached consultation paper by the beginning of November. I hope we may therefore now agree on this by 27 October.

I am copying this to Peter Walker and other members of E(LF), and to the Attorney General and Sir Robin Butler.

A handwritten signature in black ink, appearing to be "NR".

N R

24 October 1988

CONFIDENTIAL

HOUSING SUBSIDY FOLLOWING DISPOSALS OF STOCK
A CONSULTATION PAPER

Introduction

1. The Parliamentary Under Secretary of State, Department of the Environment (Mrs Roe) announced on 11 February 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, such as those to Housing Action Trusts, and promised that local authorities would be consulted on any proposed changes. This paper seeks views on the outcome of that review.

2. There could be two main sorts of large-scale disposals in the near future: wholesale disposals of a local authority's stock to a housing association or approved private landlord; and partial, but substantial, disposals of stock as a result of the establishment of Housing Action Trusts (HATs) or through the operation of the Tenants' Choice provisions of the Housing Bill currently before Parliament. In addition, individual sales of dwellings by local authorities, whether under the Right to Buy (RTB) or otherwise, are likely to continue in significant numbers.

3. This Consultation Paper sets out the Government's proposals for amending the present housing subsidy system to take better account of these disposals of stock. The intention is that the changes would operate from 1 April 1989. It is in any case proposed to change the basis of housing subsidy with the introduction of the New Financial Regime in April 1990 (see New Financial Regime for Local Authority Housing in England and Wales, A Consultation Paper, issued 27 July 1988), and the proposals contained here are consistent with that document.

The Present System

4. The Housing Act 1980 General Determination of Reckonable Expenditure sets out the present basis for the calculation of an authority's housing subsidy following disposal of stock. It provides that, when dwellings are sold, three adjustments are made which affect the authority's entitlement to subsidy. First, the authority's reckonable expenditure on loan charges is reduced by an amount equal to 65% of the sale price. Because all sales are assumed for this purpose to be made at the mid-point in the year, the reduction is deemed to have been incurred on 1 October in the year of sale. Second, it is assumed for management and maintenance purposes that the property has been removed from the housing stock, effectively again at the mid-point of the year of disposal. Third, although there might no longer be any outgoings, an allowance is made for lost rental income, also effectively making the assumption of a mid-year sale.

Problems with the Present System

5. The system described above was not designed to cope with large-scale disposals of housing stock, and can lead to anomalous housing subsidy entitlements for particular authorities, sometimes causing windfall gains in subsidy and sometimes imposing additional costs on an authority. The main reasons for these limitations are:

(i) 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 Housing Revenue Account (HRA);

(ii) furthermore, 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 (e.g. on management and maintenance).

(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 situation can clearly be inequitable between authorities which dispose of their stock. It also makes for an irrational sharing of costs between central and local government.

6. With these considerations in mind, the Government has reviewed the operation of the housing subsidy system with the aim of achieving a more equitable and rational mechanism for taking account of disposals.

Proposals for Change

7. The Government therefore proposes to introduce from April 1989 a new two-part system of housing subsidy, in which:

(i) in respect of dwellings remaining in a local authority's stock, subsidy would continue to be paid under the existing rules until 31 March 1990 and under the new financial regime from 1 April 1990 and

(ii) in respect of any dwelling sold by an authority from 1 April 1989, subsidy, to be known as "residual debt subsidy" (RDS), would be paid only in respect of loan charges on any outstanding debt related to the dwellings sold. For the purposes of the subsidy calculation, it would be assumed that an authority had used the entire receipt from sales to redeem existing housing-related loan debt. Because internal debt is normally pooled, average debt per dwelling would be taken in the calculation; the Department would be interested

to hear views, however, on whether for partial disposals internal debt could instead be apportioned by any other yardstick.

8. It is proposed that these rules would apply to all disposals of local authority housing stock after 1 April 1989. The effects of applying the new rules to different types of sale will vary, because of the different proportions that sale price, average outstanding loan debt, rental income and management and maintenance costs represent. This is discussed further in paragraphs 10-15 below.

Relationship with the New Financial Regime

9. The Government intends that the principles underlying the proposed new subsidy rules for disposals should be carried forward into the New Financial Regime for local authority housing. The mechanism by which this would be achieved would be to transfer any outstanding loan debt related to the disposed dwellings out of the Housing Revenue Account. That would be consistent with the proposals for ring-fencing the HRA under the New Financial Regime. RDS would be granted to an authority towards the loan charges on the outstanding debt and the authority would not be permitted to credit it to the HRA. The balance of the charges would need to be met from the General Fund.

a) Whole Stock Disposals

10. Some authorities currently propose to dispose of their entire stock to a housing association or approved private landlord. In the case of such voluntary disposals, subsidy would be calculated only by reference to paragraph 7 (ii) above. If, therefore, an authority in subsidy sold its entire stock for a price which exceeded its debt related to that stock, it would no longer receive any subsidy (other than any adjustments in respect of previous years). If the sale price

was less than the outstanding debt, then residual debt subsidy would be paid in future on outstanding debt in the HRA, at a rate to be set out in determinations. Likewise, an authority previously out of subsidy but which sold its entire stock for less than the outstanding housing-related debt, would now receive subsidy on the loan charges. The effect of the proposals is therefore to reduce some windfall gains and ameliorate any losses in subsidy. They would thus provide a more rational level of exchequer assistance for authorities selling their entire stock for less than the outstanding housing-related debt.

b) Other Bulk Disposals

11. The proposed changes to the subsidy rules would apply to other bulk, but partial disposals of stock as well as whole stock disposals. This would include disposals to the proposed Housing Action Trusts (HATs), under the Tenants' Choice provisions of the Housing Bill currently before Parliament, or otherwise. Particular explanation is needed of how the proposals would work for HATs.

12. The Minister for Housing and Planning (Mr Waldegrave) announced on 11 July that he proposed, subject to approval of the Housing Bill currently before Parliament, to establish Housing Action Trusts (HATs) in six authorities - the London Boroughs of Lambeth, Southwark, and Tower Hamlets, and Leeds, Sandwell and Sunderland.

13. The value of stock to be transferred to HATs has yet to be settled. However, in those instances where the disposal price is insufficient to redeem the whole of the debt which will be apportioned to the dwellings transferred, the local authorities in which the HATs are created would, under the Government's proposals, be entitled to residual debt subsidy on the loan charges on this outstanding debt.

14. Those local authorities where it is proposed to create a HAT which are currently receiving subsidy would have a lower total subsidy entitlement under the changes proposed than they would have done if the dwellings had not been disposed of to a HAT. There will be changes in the authority's rental income, management and maintenance and loan charges expenditure consequent upon the disposal to a HAT, but the net savings from these may not be sufficient to offset the reduction in subsidy entitlement. Unless met from some other source, this loss could in theory lead to rent increases for the remaining tenants over and above those which would otherwise have taken place.

15. The Government intends that no costs should fall on the remaining tenants, and therefore proposes that any such costs should be met by the Exchequer by means of a 'safety net'. The safety net would be applied, if necessary, to all local authorities in which a HAT is created, whether or not the authority is currently receiving main housing subsidy. The safety net payment would be calculated as follows:

<u>Net savings/costs to HRA</u>					
SAFETY	Subsidy	Subsidy*	(	Reduction	Lost)
NET	entitlement	entitlement	(Reduction in	in	Rental)
Payment =	if no	— following	(M&M	+ total loan	— Income)
	transfer to	transfer	(	charges)
	HAT	to HAT			

* Main Housing Subsidy payable on remaining stock, plus Residual Debt Subsidy in respect of any outstanding debt on transferred stock.

It is hoped that it will be possible to base the calculation of the three HRA items in the above formula on actual figures from authorities relating to the HAT dwellings.

This safety net payment would be re-calculated on an annual basis, using the notional increases in rent and M&M applied to main housing subsidy. The Government's intention in introducing such a safety net would thus be to ensure that none of the authority's remaining tenants or ratepayers suffered financially as a result of the transfer of stock to a HAT.

c) Right to Buy Sales

16. It is proposed that the new subsidy rules for disposals of stock should apply to sales under the Right to Buy, as well as to other individual sales. The effect on the subsidy entitlement of an individual authority will of course depend upon the combination of sale price, number of sales, and outstanding debt apportioned to the dwellings sold. Generally, however, it is expected that the impact of the proposals on the subsidy entitlement of individual authorities is likely to be insignificant when averaged over all individual sales during the 12 month period for subsidy purposes.

Rate of Subsidy

17. The Government has it in mind that housing subsidy under the proposed new rules should in general continue to meet the proportion of housing costs which it has traditionally met, 75%. The remaining 25% would thus fall to be met from the authority's own resources, without assistance from rate support grant. This arrangement would ensure that any authority has a financial interest in obtaining the best sale price and in taking management decisions which maintain the value of the stock in advance of disposal.

18. These arguments do not apply in the case of authorities in which it is proposed to create a HAT, because disposal will take place on the direction of the Secretary of State, at a price to be determined by him. The 'safety net' payment proposed in paragraph 15 above, alongside the proposed residual

debt subsidy, means that any net losses incurred by these authorities as a result of the transfer of stock to a HAT would effectively be subsidised at a rate of 100%.

Date of Sale

19. The present adjustments to entitlement to subsidy on disposals all assume that these take place at the mid-point of the financial year (see paragraph 4, above). This means that an authority would gain some benefit if a sale takes place towards the end of the year: they would then be credited in the year of sale with the loss of half the rent income less half the expenditure on loan charges and M&M although the actual net loss would often be less than this. Basing the adjustments in subsidy entitlement on the remaining stock on the actual date of sale would mean that the management and maintenance allowance and the credit for lost rent income would be derived from the proportion of the financial year for which the dwellings remained in the authority's ownership. For a sale on 31 March the subsidy effects would occur in the year following sale; if on 1 April, the effects would occur in the year of sale.

20. It would be a complex administrative task to move to an actual date of sale system for all disposals. Therefore it is proposed that sales of individual properties will continue to be assumed to have taken place at mid-year, but for all other sales, the actual date of sale would be used in the subsidy calculation.

Implementation of the Proposals

21. Following consultation, the Government envisages introducing legislation in the 1988/89 session of Parliament to amend the 1985 Housing Act. In order to ensure that the new subsidy arrangements can take effect from the beginning of the next financial year, the legislation would provide for the new rules to operate retrospectively, from 1 April 1989.

Consultation Arrangements

22. The Government invites comments upon these proposals if possible by [6 weeks from date of issue]. Letters should be addressed to the Local Authority Housing Finance Division (LAH, Room N10/09, 2 Marsham Street, London SW1P 3EB) or to Housing Division A (Welsh Office, Cathays Park, Cardiff CF1 3NQ). It would be helpful if the two 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 Department of the Environment at the above address (telephone: 01 276 3418).

23. 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. Those 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 of individual respondents, may, however, incorporate such responses.

Housing Policy Pt 13





Caxton House Tothill Street London SW1H 9NF

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

October 20

Dear Nick. P.S.

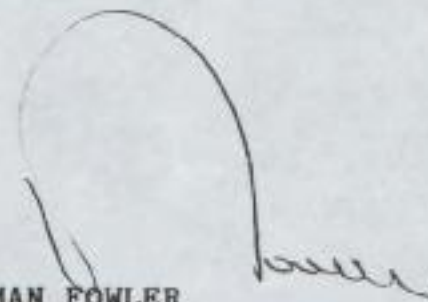
HOME OWNERSHIP FOR TENANTS OF REGISTERED HOUSING ASSOCIATIONS

In your minute of 14 October to the Prime Minister, you proposed that the HOTCHA scheme should be wound up and replaced by a cash incentive scheme.

I agree that your proposals offer a more cost effective way of enabling housing associations to secure vacancies for reletting.

I note that in para 7 of the paper attached to your minute it is stated that the Housing Corporation would determine priorities between associations. I suggest that, among other priorities, priority should be given to schemes that allocate a proportion of the relettings to people moving into the area, in particular those moving in order to be able to take up employment. This would help to make mobility easier for those who cannot afford to buy their own homes.

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

J. Fowler

 NORMAN FOWLER



CCP

MSB
at this stage.
Ridg
20/10

PRIME MINISTER

TENANTS' CHOICE: VOTING

attached

I have seen Nicholas Ridley's minute to you of 17 October.

I agree that a concession is inevitable. If it were to take the form of a minimum turnout provision, I feel we would have to set the minimum at 50%. Anything less would be widely seen as derisory and would risk renewed difficulty in the House.

Such an arrangement would however have the consequence that as the turnout approached 50%, the effect of additional tenants voting against transfer could in fact be the perverse one of causing the transfer proposal to be carried. Nor am I sure that Nicholas is right in thinking that local authorities might not be tempted in some circumstances to try to defeat transfer proposals by seeking to ensure that the minimum turnout requirement was not met.

One possible arrangement that would avoid these difficulties would be to provide that for a transfer proposal to be carried, a specified minimum percentage, perhaps 25%, of those eligible to vote should have to vote in favour. The attached annex shows what the effect of this would be at various levels of turnout.

I am copying this to Nicholas Ridley and to the other members of E(LF); and to Sir Robin Butler.

SR Williams

PP

P W

19 October 1988

Approved by the Secretary
of State and signed in his absence



ANNEX

Votes required to carry a transfer proposal for an estate of 1,000 tenants.

(a) With new requirement of 50% minimum turnout.

No. of votes cast	No. of "yes" votes needed to carry transfer
1000	500
850	350
750	250
600	100
500	Nil
Below 500	Transfer cannot be carried even if all votes cast are in favour.

(b) With new requirement for 25% of those eligible to vote to be in favour.

No. of votes cast	No. of "yes" votes needed to carry transfer
1000	500
850	350
750	250
600	250
500	250
400	250
250	250
Below 250	Transfer cannot be carried even if all votes cast are in favour.



FILE
EAM

~~CE PU~~

10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

18 October 1988

Dear Sir,

TENANTS' CHOICE: VOTING

The Prime Minister was grateful for your Secretary of State's minute of 17 October. Subject to the views of colleagues, she is content with his proposal to table an amendment later this week for the Report stage.

I am sending a copy of this letter to the Private Secretaries to members of E(LF) and to Trevor Woolley.

*Yours
faithfully*

PAUL GRAY

Roger Bright, Esq.,
Department of the Environment

EAM

PRIME MINISTER

18 October 1988

HOME OWNERSHIP FOR TENANTS OF REGISTERED
HOUSING ASSOCIATIONS

pps. please at top
Nicholas Ridley proposes replacing the present scheme of grants to enable tenants of charitable housing associations to buy a house with a new more cost effective scheme that will apply (although his minute does not make this clear) to all housing association tenants.

Background

The House of Lords defeated the Government's attempts to give tenants of charitable housing associations the right to buy. Instead, the Government introduced a scheme that give tenants of charitable housing associations a cash grant based on the usual right to buy discount scale and the value of the tenant's housing association home. Tenants of non-charitable housing associations have full right to buy and do not have access to these grants.

You will recall that earlier in the year you agreed that Nicholas Ridley could take powers in the Housing Bill to allow local authorities to give cash grants to their tenants to buy private sector homes. There had previously been some concern that such a scheme would simply give money to tenants who intended to move in any case but experience in Bromley, who introduced a scheme based on their general powers, showed that this was not the case. Cash grants of around £10,000 attracted a significant number of tenants and released council houses for reletting at a fraction of the cost of building new.

Nicholas Ridley's Proposals

Nicholas Ridley proposes to replace the present scheme for tenants of charitable housing associations with a scheme modelled on the local authority scheme that would apply to all housing association tenants. It is expected that grants substantially lower than under the present scheme would be sufficient to stimulate tenants to move out. The change may be resented by those tenants planning to benefit from the existing scheme since those with the maximum entitlement to discount in, say, inner London would be entitled to a cash grant of £63,000 on a flat worth £90,000. Under the new scheme grants are expected to be in the range £10,000-£15,000.

Comment

The proposed scheme will be both more cost effective than the present scheme and a more cost effective way of providing new letting than new building or refurbishment by housing associations which costs between £40,000 and £90,000 for a two bedroom flat.

The new scheme will be discretionary; tenants will not have a right to be given their grant immediately they apply but will have to queue so that the total cost of the scheme can be contained within the Housing Corporation's cash limit. However, since the scheme appears to be so much more cost effective than new building or refurbishment we suggest that these grants should be given high priority. As there are long queues under the present scheme, the Government can make a virtue of making a greater commitment to the new scheme.

Conclusion

We recommend that you endorse Nicholas Ridley's proposal for a scheme of cash grants to encourage home ownership by tenants of registered housing associations. You might comment that since the scheme appears to be much more cost effective than new build or refurbishment it should be given the highest priority in the Housing Corporation's programme.

Peter Stredder

PETER STREDDER

HOUSING: policy p. 13

SWYDDFA GYMREIG

GWYDYR HOUSE

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01-270 (Llinell Union)

Cudd wrth Ysgrifennydd Gwladol Cymru



MBR
RUC
17

WELSH OFFICE
GWYDYR HOUSE

17 (WHITEHALL LONDON SW1A 2ER)

Tel. 01-270 3000 (Switchboard)
01-270 (Direct Line)

The Rt Hon Peter Walker MBE MP

From The Secretary of State for Wales

17 October 1988

Dear Lord President

HOUSING AND LOCAL GOVERNMENT BILL

I appreciate that there are severe drafting pressures on the Housing and Local Government Bill, so it is not without the most careful consideration that I propose an additional clause.

When I announced the creation of the Welsh Language Board to advise me on the promotion and encouragement of the Welsh Language in July, I said that I would be consulting my colleagues with a view to amending the 1972 Local Government Act so as to allow local authorities' corporate names to be in Welsh only (eg Cyngor Sir Gwynedd for Gwynedd County Council). Current legislation enables the council's corporate title to be in English only. The 1967 Welsh Language Act does enable a Welsh version of the English title to be given, but the statutory title remains that prescribed to be in English - it is not possible to substitute a Welsh title for the statutory prescribed English title.

I therefore propose an additional clause to the Housing and Local Government Bill which would allow this by making the necessary amendments to the 1972 Act. A similar provision was made in the Companies Act 1985 with regard to the statutory title of Welsh companies. Local authorities wishing to take advantage of this provision - and I propose to extend it to county, district and

The Rt Hon John Wakeham MP
Lord President of the Council
Privy Council Office
68 Whitehall
LONDON
SW1

.../community



community councils - would need to secure the support of at least two thirds of those present at a meeting that would have to be specially convened for the purpose, giving at least 14 days' notice. The Council would then be required to inform me of the change as well as informing other organisations with an interest such as the Director General of the Ordnance Survey and the Registrar General. Any such change of name and title would not affect the Council's rights or obligations entered into under its previous title.

This proposal will not give rise to EC implications nor will it have financial and manpower implications for central Government.

General legislation in support of the Welsh language is a subject fraught with difficulties and one which excites fervent interest within certain parts of the community in Wales. The inclusion of a clause along the lines that I have outlined in the forthcoming Bill will, I believe, be welcomed by all sides of the community and will demonstrate my commitment to taking practical steps in support of the Welsh language.

I would be grateful for colleagues' agreement to this course of action by Monday 24 October.

I am copying this letter to the Prime Minister, Nicholas Ridley, other members of 'H' Committee, Sir Robin Butler, and to First Parliamentary Counsel.

Yours sincerely

Keith Davies

Approved by the Secretary of State
and signed in his absence





Prime Minister's office

Context, subject to the
views of colleagues, for an
amendment to be tabled this week
providing for a minimum turnout
requirement? R206 17/10

Prime Minister

TENANTS' CHOICE: VOTING

You will have seen that Part IV of the Housing Bill (Tenants' Choice) successfully completed its Lords Committee Stage on 11 October. You will also have seen press reports of a tactical concession which Malcolm Caithness offered in order to help achieve the significant majority (47) that we had on the Tenants' Choice voting arrangements despite widespread predictions in the Press of a possible defeat.

You will recall that Tenants' Choice applications will be governed by a ballot. Under clause 102, transfer may proceed unless a majority of those eligible to vote, does so against transfer. If transfer proceeds, all those who vote in favour will transfer along with those who abstain. All secure tenants who vote against transfer will be able to remain with the local authority.

Malcolm undertook to consider introducing a minimum turnout provision on the Tenants' Choice vote. This change, which I believe we are effectively committed to making, would be similar to the 50% minimum turnout requirement in the first stage of the dual ballot arrangements on schools' opting-out introduced by Kenneth Baker into the Education Reform Act in its final Commons stages.

This does not damage either the "no majority against" voting test, designed to avoid apathy from preventing those wishing to transfer from doing so; or the element of individual choice which makes this robust approach to the collective decision possible. Moreover it would give the lie to the suggestion that we would allow applications to go by default. There would be no new loophole which a hostile local authority could exploit, for example by campaigning for a "no" vote in the hope that the



minimum turnout would not be met. Such authorities would have just the same incentive as they would under the Bill as drafted to get tenants to vote: "no" votes would remain the key to blocking the application, which is what such authorities will want. And above all, there are no consequences that would make the existing "no majority against" voting test untenable for voluntary disposals of tenanted housing by local housing authorities, to the success of which it is crucial.

I have in mind a Government amendment at Report to make an applicant landlord's ability to complete a transfer dependent both on the "no majority against" test, and on a minimum turnout. A final decision on what the figure should be will require a little further thought because of the possible read-across to voluntary transfers, though we must obviously start our consideration from the 50% figure in the Education provisions. I would prefer to avoid a second ballot on Education Reform Act lines: it would add to bureaucracy and to costs; the existence of a second chance to vote would reduce the incentive for tenants to turn out in the first vote; and we expect in any case that a reasonable turnout test - say 50% - will be achieved in virtually all cases where prospects of a successful transfer are good.

We shall need to table an amendment later this week for the Report Stage, which is due the following week, so I should be grateful to know by Wednesday 19 October whether you and colleagues are content for me to proceed as I propose.

I am copying this to other members of E(LF) and to Sir Robin Butler.

N R
17 October 1988

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

CPU.



PRIVY COUNCIL OFFICE
WHITEHALL, LONDON SW1A 1AT

October 1988

NBSM

*Rec 6
17/10*

Dear Nick,

HOUSING AND LOCAL GOVERNMENT BILL

Thank you for your letter of ¹⁴ October in which you ask for drafting priority to be given to all the items listed in your letter of 21 July and for instructions to be sent to Parliamentary Counsel on some of the items which you had previously dropped from the Bill in order to slim it down. You also ask for agreement that provisions on the Local Ombudsman should be included in this Bill, rather than being left in the Private Members Handout Bill that is in the approved list.

I think you are reading too much into my letter of 12 September. When I agreed that the aim should be to include as much agreed policy material as was practicable on the Bill's timescale, provided that it was correctly prepared and drafted, that did not signal an open season for throwing every possible relevant provision into the Bill. I understand that a Bill of the order of 120 clauses will, in practice, be all that can be drafted in time for introduction by the end of January, and I believe that on that timescale any substantially bigger measure would, in any event, cause appreciable handling problems later in the session. I would obviously not want to seek to impose an absolutely rigid and arbitrary limit of 120 clauses, whatever the circumstances by the time of introduction. But the vital thing is that the Bill must be introduced in January, even assuming a guillotine, and that it should not be so hastily prepared that we suffer from extensive government amendments later on.

I, therefore, still believe that it would be helpful for your Department to indicate to the draftsmen the order of priority that is attached to the various provisions. It would clearly be very undesirable for the draftsmen to be proceeding on a perception of the priorities that is different from your own, and I very much hope that you will be able to think again about this. Since the ordering of priorities is a matter for you rather than me, I would not want to express a view on the usefulness of your Department sending instructions on the provisions that you previously proposed to drop. If you can bring some of those provisions back into a Bill of the size and timescale we are contemplating, then clearly I would not wish to stand in your way. There seems little point, on the other hand, in distracting Parliamentary Counsel with instructions on topics that have such low priority that their chances of inclusion are small.

I quite understand your arguments about including the provisions on the Local Ombudsman, and I agree that there might be those who tried to score points off us for unloading a bit of the Widdecombe proposals onto a backbencher, though no doubt we could deal with that robustly. On the other hand, any inflation of this massive and very late Bill will tend to store up more trouble for later in the session. I am reluctant, therefore, to accept at this stage that the Local Ombudsman provisions should be

Contd 2/ . . .

incorporated in the Bill. Perhaps we could have another look at this before the ballot for Private Members Bills in the new session, when we could take the opportunity to review progress on your Bill as a whole.

I am copying this letter to the Prime Minister, Nigel Lawson, Kenneth Baker, Peter Walker, Malcolm Rifkind, John Belstead, David Waddington, First Parliamentary Counsel and Sir Robin Butler.



JOHN WAKEHAM

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

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A C.P.U.



PRIME MINISTER

HOME OWNERSHIP FOR TENANTS OF REGISTERED HOUSING ASSOCIATIONS

On 22 February ^{Page pt 11} I minuted you proposing powers for local authorities to make payments to help their tenants move out and buy homes in the private sector, thus releasing vacancies for reletting to the homeless. Clause 122 of the Housing Bill now provides for such powers. Paragraph 10 of the paper attached to my minute mentioned, however, that I was considering whether a similar scheme might be introduced for housing associations, both in order to enable them to secure vacancies for reletting and as a replacement for the Home Ownership Scheme for Tenants of Charitable Housing Associations (HOTCHA). The attached paper (which has been cleared with Treasury officials) proposes such a scheme.

At this stage I seek agreement in principle that

- a. HOTCHA should be wound up and replaced by a cash incentive scheme; and
- b. that an announcement should be made in the autumn, after Royal Assent to the Housing Bill.

If colleagues agree I will put forward detailed proposals later.

I should be glad to know whether colleagues agree. Copies of this minute go to members of E(LF) Committee to Sir Robin Butler.

NR

14 October 1988

HOUSING Policy p 13



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HOME OWNERSHIP FOR TENANTS OF REGISTERED HOUSING ASSOCIATIONS

The HOTCHA scheme

1. HOTCHA was introduced in September 1984 following the defeat of the proposal in the Housing and Building Control Bill to extend the right to buy to tenants of charitable housing associations whose homes had been provided with public funds. A tenant who would have had the right to buy, were it not for the landlord's charitable status, receives a discount on a house of his choice bought on the open market by a non-charitable association and sold on to him. The discount, which is related to the tenant's hypothetical RTB discount, is funded by Housing Association Grant, and so is a call on the Housing Corporation's development programme.
2. When HOTCHA was introduced it was thought that take-up would be minimal, since charitable housing associations generally exist to provide rented accommodation for people in necessitous circumstances who could not normally afford to own their homes. The total cost was not expected to exceed some £25m over two years. In fact over 5,000 tenants have already received discounts totalling nearly £80m. Some 2,250 applications received after the end of May 1987 are being held on a waiting list, which is growing at about 200 a month.
3. There is no sign of the demand for HOTCHA discounts slackening. The delays suffered by applicants are a constant source of complaints, and there is also pressure to revise the value limits which serve to contain expenditure. HOTCHA is also a source of complaints because it is subject to limitations which appear arbitrary and irrational. Thus, for instance, the tenant of a house specially built for the disabled is not eligible for a HOTCHA discount, because he would not have the right to buy even if he rented from a right-to-buy landlord. It is hard to defend excluding tenants of such houses from HOTCHA: the properties are exempted from the right to buy in order to keep them available for renting, but a tenant moving out with help under HOTCHA would release the house for reletting. The link with the right to buy is arbitrary in other

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ways, notably in linking the portable discount to the discount which the tenant would have had if buying the present home under the right to buy. Thus tenants of low value houses, or whose discount would be affected by the cost floor rule, are liable to have low HOTCHA discounts. It makes little sense to have regard to the value of the present home in determining how much assistance to give for the purchase of a different house.

4. For all its faults, however, the HOTCHA scheme has demonstrated the existence of significant numbers of housing association tenants who can afford to move into owner-occupation provided they receive some assistance; and it has generated a useful number of vacancies for reletting. But HOTCHA discounts seem higher, outside London, than is needed to enable tenants to buy on the market: the average discount is over £17,000, while the experience of the local authorities which operate cash incentive schemes indicates that even in London vacancies can currently be secured for £10-15,000. A policy evaluation case study carried out after the scheme had been in operation for two years concluded that it represented a reasonably efficient use of resources, but that a scheme which was not linked to the right to buy could be much more efficient.

Cash incentives

5. The object of giving local authorities express powers to operate cash incentive schemes, with Ministerial consent, is to enable them to secure vacancies for reletting by helping tenants move out into homes of their own. The intention is to approve schemes where they offer a cost/effective way of housing the homeless. It would be for each local authority to propose a level of payments designed to secure the desired vacancies at least cost, and there would be no link with the tenant's right-to-buy discount entitlement. The research on the schemes operated by the London Boroughs of Brent and Bromley relying on general powers showed that tenants who moved out with incentive payments were mostly not interested in exercising the right to buy.

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6. It is important that housing associations should be able to make the best use of their stock for lower-income households by encouraging tenants who no longer need to be in social rented housing to move on. Experience with HOTCHA shows that there are some existing housing association tenants who are able and willing to move out, with financial assistance. There is therefore a case for enabling housing associations to operate cash incentive schemes, on broadly the same lines as local authorities. Under a cash incentive scheme the landlord would have discretion whether to offer payments in order to secure vacancies, so that expenditure was not tenant-led, and the payments would be unrelated to right-to-buy discount. It is proposed that housing associations should be allowed to operate such a scheme.

7. Local authorities will make cash incentive payments out of their own resources. Housing associations do not have the financial flexibility of local authorities. There may be some scope for associations to fund cash incentive payments privately, but initially at least it seems necessary to assume a high level of central funding, with the Housing Corporation allocating resources to associations within its approved development programme. It would need to take a view on the extent to which it was sensible to secure vacancies by recycling existing housing rather than by new provision. The Corporation would also determine priorities between associations and ensure propriety and value for money in the making of payments. Before drawing up a detailed scheme the Corporation would need to consult housing associations, and particularly charitable associations which would need to be satisfied that the payments to tenants were consistent with their objects.

8. A continuing HOTCHA scheme would compete for the same resources as a centrally funded cash incentive scheme, and it would be confusing to tenants, and lead to complaints and accusations of unfairness, if the two schemes ran in parallel. It would in any case be desirable to discontinue HOTCHA in its present form in view of the flaws discussed above and the unrealistic expectations to which it gives rise. It is therefore proposed that a cash incentive scheme for housing associations should supersede HOTCHA.

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Transitional arrangements

9. It would be necessary to honour HOTCHA applications already received, but there would still be bitter complaints if other tenants who had intended to take advantage of HOTCHA were not offered any substitute. In principle it would be desirable to concentrate the resources available for a cash incentive scheme on areas where the pressures on the available housing were most severe. If, however, HOTCHA is discontinued it may be desirable to assure tenants who would otherwise have been eligible for HOTCHA discounts that they stand a good chance of receiving a payment (albeit a less generous one) under the new scheme instead. Initially, therefore, it might be necessary to allocate resources with a view to achieving a measure of continuity with the HOTCHA scheme, as well as securing an increased supply of relets to the homeless and others dependent on social rented housing.

Public expenditure implications

10. £19m are allocated for HOTCHA in the Housing Corporation's programme for 1988/89. It would be for the Housing Corporation to make proposals for future expenditure on outstanding HOTCHA applications and on a cash incentive scheme in the approved development programme. A given level of expenditure should buy more vacancies under the new scheme than under HOTCHA, since the level of individual payments would be unrelated to RTB discount and so could be adjusted to secure the maximum number of vacancies at minimum cost.

Policy evaluation

11. The evaluation of the HOTCHA scheme has already been referred to above. It is intended to review the operation of local authority cash incentive schemes after two years of operation, and it will be a condition of each scheme approved that the results are monitored and reported. Similar arrangements would be necessary for a housing association cash incentive scheme.

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Timing

12. When the Housing Bill has come into operation primary legislation will not be needed to enable housing associations to make cash incentive payments, or to enable the Housing Corporation to fund them using Housing Association Grant. Clause 48(2) of the Bill will enable the permissible objects of registered housing associations to be extended for this purpose by order subject to negative resolution. In view of this the appropriate time to announce a new scheme, and the winding up of HOTCHA, would be in the autumn, when the Bill has received Royal Assent and the Housing Corporation's expenditure proposals for 1989/90 have been approved.

Conclusion

13. It is proposed that

a. HOTCHA should be wound up and replaced by a cash incentive scheme, to be controlled and, so far as necessary, funded by the Housing Corporation;

b. that an announcement should be made in the autumn, after Royal Assent to the Housing Bill, in the context of the approval of the Housing Corporation's expenditure proposals for 1989/90, coinciding with the issue of a consultation document by the Housing Corporation canvassing the new scheme;

c. that HOTCHA applications received up to the date of the announcement should be dealt with, but no further applications accepted thereafter.

Department of the Environment
September 1988

CONFIDENTIAL

PJS 10-10.
1. Mr. Stredde
- to see

Prime Minister 2

2. CF - P.C.

Rec 7/10

PRIME MINISTER

7 OCTOBER 1988

OPPOSITION TO HAT'S

Nicholas Ridley has spoken to you about the extent of opposition to the Government's proposals to create HAT's. My minute for your Value for Money Seminar with Nicholas Ridley drew attention to the opposition both to HAT's and 'Tenants Choice'. I recommended a high profile Government publicity campaign to counter this misinformation and hostility. I spoke to Lord Caithness about both these matters last night. He is well aware of the need for more publicity but pointed out that the Department was constrained by a very limited budget for publicity although next year's expenditure is still under discussion in the PES. He is particularly aware of the difficulties faced in HAT's which he says are more severe than the Department had expected.

You may be interested in seeing the attached papers which he handed me. These show the sort of campaign that the tenants groups are whipping up in two boroughs - Tower Hamlets and Lambeth. They also provide direct evidence of union funding and orchestration of this campaign. The two internal DOE minutes are produced by Mr Pelling, the DOE's Greater London Regional Director and Mr Grevatt, the Regional Controller, Housing.

Peter Stredde

PETER STREDDER

*Minutes - to see. I
will hold for next
HAT meeting.*

FROM: A A PELLING
Director London Region

4 October 1988

→PS/Lord Caithness

PS/Mr Trippier

cc
PS/Secretary of State
Mr Ellis-Rees
Mr Ballard
Mr Owen NRO
Miss Caines
Mr Kendall
Mr Jacobs
Mr Rock

*Useful to see
Can we discuss
and go through answers
to the questions posed.*

HOUSING ACTION TRUSTS: ORGANISED OPPOSITION

1. I have received a letter from a tenant on an estate in Tower Hamlets with the enclosed minutes of HAT-TAG, and a leaflet delivered to tenants. The leaflet is damaging to Ministers policy in its insistence that market rents will come.
2. The HAT-TAG organisation seems based on NALGO support at £5,000 initially and a seconded worker though there are demands on Tower Hamlets for "funding, a worker, non-negotiation and non-co-operation". Also some of the Councils Neighbourhood managements are involved. You will see from paragraph 3 that the aim is to "show that tenants will make a HAT unworkable, whatever they (Ministers) choose to do".
3. Paragraph 4 refers to a national co-ordinating body - "No to HATs". It seems training is being co-ordinated from Hulme.
4. The *Vonic* note is in paragraph 8. Tenants it is said are being "panicked into applying for Right to Buy".
5. Has another Region any knowledge of the "no to HATs" organisation. I take it that there is a presumption amongst tenants associations that if Hulme estate was left out despite Ministerial interest, then other estates too could work their way out of the HAT procedure.

AAP

A A PELLING

ATTEN THAT

HAT!

MINUTES OF HATTAG MEETING HELD AT BERNER CENTRE ON 23.8.88.

HAT-TAG

('Housing Action Trusts')

Tenants Action Group)

Those present: C. Harrison, S. Larcombe (Boundary), R. Miah (Berner), S. Miah, M. Rashid (Shadwell Gardens), E. Lilley, S. Watts (Solander Gardens), D. Gibson, D. Charlton (Ocean), D. Relph (NALGO), C. Wilson (Law Centre), G. Hewett (Fed.).

1. Minutes of last meeting.

Steve Watts didn't receive them, and reps from Holland Estate complained likewise, although there are half a dozen names on the mailing list.

It was suggested that only information relevant to HATTAG be sent out with minutes.

The petitions will be presented to the 3 Neighbourhood Chairs.

2. Matters arising.

Gary hasn't made contact with NUPE yet - urgent!
HATTAG wrote to Brenda Collins re. funding, but she is on leave.

NALGO will be able to second a worker to the Housing Bill/HAT Campaign, Gary to liaise with Derek.

The delivery of HAT leaflets which the Fed. has printed will be delivered without problems on each estate, except for the Boundary, and especially Holland, where help and organisation will be required.

4 banners are ready for the Boundary (£35), and 6 ready for the Berner (£35) prepared by the Ocean TA.

The Berner TA is meeting with senior Neighbourhood officers next Friday.

The Fed. has not yet sent a list of neighbouring TAs to HATTAG members yet - urgent!

Shadwell TA, far from being "almost non-existent", is alive and functioning well now.

Dick will send a letter requesting a deputation at the next Council meeting to Mayor Barry Duffie. We will decide what to say at our next meeting, but we want funding, a worker, non-negotiation and non-co operation with the D of E on HATs.

It was AGREED that we should bus some Lords around the estates nearer to the end of September/October prior to their next debate on the issue, with press and media. Interested TAs should meet at a later stage to organise it. Dick will write to the Lords to arrange a date, Chris will help as well. Dave will find out if the Bill will be re-amended before going back to the Lords, which will require a quick reaction from us.

We should try and use the Neighbourhood resources more, always ensuring that we control the content of anything which they put out concerning HATs.

It was AGREED that we should meet with the 3 Neighbourhood Chairs, Chief Execs, and Housing Managers on Thursday 1st of September, (although this meeting is proving difficult to arrange, and may have to be set back a week).

We should discuss: the Neighbourhoods' response so far,
the Council's response,
what resources, support they will provide,
help with leafletting
no negotiations, co-operation,
co-ordinate ballot on our terms,

The meeting should be firmly chaired by a tenant rep, allowing no chance for the politicians to attack each other, or dominate the meeting. They should simply say what support they can give. (Can we also ask Jeremy Shaw to provide minutes of all meetings with the D of E at which HATs were discussed?)

3. Meeting with D of E.

It was AGREED that we want to meet Ridley first in mid/late September before meeting with consultants and D of E officials, who would fore-warn and fore-arm a minister. We should send them list of questions before this, so that Ridley would not be able to say on the night "I'll have to get back to you on this", (but is this not the same as meeting with consultants?). The purpose of any meeting should be to demonstrate the strength of opposition, to shock Ridley, and show that tenants will make a HAT unworkable, whatever they choose to do. Derek will try and find out if the consultants are going to meet reps from the Council. (Gary has contacted Ridley's office and suggested the 19th, 20th, 26th, 27th September).

4. National HAT meeting.

In Birmingham it was agreed to set up a national co-ordinating body called "NO TO HATS", which will support a national ballot asking simply yes/no, run by the Electoral Reform Society, before the Bill goes to the Commons. Estates should show how they do not meet the criteria for HATs, and present their petitions nationally in the first week in October. There will also be a training day at Hulme in Manchester for 6 reps from HATTAG. Sarah will check that the Council is willing to go along with the national ballot.

5. Charter of demands.

It was AGREED that IAs should discuss this at their next meeting on each of the estates, and come back with proposals.

6. NALGO Report back.

there had been a national meeting of the 6 affected NALGO branches, who would be:
issuing publicity for members and tenants in 3 weeks (will tenants be consulted beforehand?),
setting up a national co-ordinating body,
following a policy of non-co operation in Southwark, although more work needs to be done in Tower Hamlets if such a policy is to be effective,
proposing setting up a fighting fund of £5,000 which TAs can draw on,
seconding a worker to the campaign,
organising a fund-raising social, probably at St. Hildas on the Boundary, where there is room for a non-alcohol area, Sarah will liaise with Derek,
asking the Council to restore funding for the Federation,
press the Council to release officers to provide more support,
try to arrange help in delivering the Housing Bill leaflet to every flat in the Borough.

7. Co-ordination on the estates.

Because of a whole range of problems on the Holland Estate, they have not been involved in HATTAG so far, and consequently are going to meet with the D of E, which is contrary to HATTAG policy. They have not been receiving the mail-outs, the Fed. will ensure that they do in future.
It was AGREED that Dick, Dave and Mr Rashid from Shadwell will meet the 3 people going to see the D of E beforehand, so that we can stress our policy of making things as awkward as possible.

8. A.O.B.

Tenants are being panicked into applying for the Right-to-buy their flats, believing that they will be able to cash in on the rise in land prices and avoid the worst effects of a HAT. It was AGREED that we should produce a leaflet showing the dangers of such a decision, as a matter of URGENCY, which should be delivered to each flat. Dick, Chris and the Fed. will work on it.

THE NEXT MEETING OF HATTAG WILL BE AT
7.30pm
ON TUESDAY 6TH SEPTEMBER,
IN THE DINING ROOM,
AT TOYNBEE HALL,
COMMERCIAL STREET, E1.

THE MEETING WITH THE NEIGHBOURHOODS WILL (HOPEFULLY) BE
ON THURSDAY 1ST SEPTEMBER,
VENUE TO BE ARRANGED.

my copy was

DELETED IT SAID:

CAN THEY BE ASKED NOT TO NEGOTIATE
BUT SIMPLY TO STATE THEIR OPPOSITION

Tower Hamlets Federation of Tenants

YOUR HOME AT RISK !

Oxford House
Derbyshire St
London E2
Tel 01 739 6778

**YOUR HOME
AT RISK !!!**

THE GOVERNMENT HAS RECENTLY ANNOUNCED THAT IT INTENDS TO TAKE OVER YOUR ESTATE, AND TRANSFER YOUR HOME TO A HOUSING ACTION TRUST (HAT), BEFORE SELLING IT OFF TO A PRIVATE LANDLORD OR HOUSING ASSOCIATION.

The HAT would work like the LDDC in the Docklands, with a COMMITTEE of people APPOINTED by the GOVERNMENT - UNELECTED and UNACCOUNTABLE to local people.

**YOUR HOME
AT RISK !!!**

At present, with the COUNCIL as your LANDLORD, if you're not happy, you can VOTE THEM OUT, but the HAT would have TOTAL CONTROL over YOUR ESTATE. They could DEMOLISH your BLOCK; they could MOVE you OUT; they could BUILD ROADS and OFFICES - and YOU would have NO CONTROL AT ALL.

**YOUR HOME
AT RISK !!!**

After 3-5 years, YOUR ESTATE would then be SOLD to a PRIVATE LANDLORD or HOUSING ASSOCIATION. You would have an "ASSURED TENANCY", which means that you would pay a "MARKET RENT" i.e. much more than you pay now; AND you would have LESS SECURITY i.e. you could be EVICTED for late payment of rent with NO NEED for DEBATE in the COURTS.

**YOUR HOME
AT RISK !!!**

MANY TENANTS on YOUR ESTATE will probably be FORCED to LEAVE, because there will be a 'CEILING' on HOUSING BENEFIT, which will NOT be allowed to rise as high as the highest rents.

If you are a HOME-OWNER, YOU will be affected ASWELL, because after the improvements, YOU will have to pay HIGHER SERVICE CHARGES - and the HAT will even be able to COMPULSORILY PURCHASE YOUR HOME, and MOVE YOU OUT!

**YOUR HOME
AT RISK !!!**

After INVITING the Government to look at ways of setting up a HAT, the COUNCIL has now been forced to do a U-TURN, and has said that it is "UNANIMOUSLY OPPOSED" to the idea....(Although they are still WRITING LETTERS to the Government - AGAINST the WISHES of tenants on YOUR ESTATE).

**YOUR HOME
AT RISK !!!**

It is STILL POSSIBLE to STOP THE HAT. It will NOT take over YOUR ESTATE until the HOUSING BILL is made law, in about SIX MONTHS' time. Meanwhile there is a LOT TO BE DONE if YOUR ESTATE is to be SAVED.

The ONLY WAY to STOP THE HAT is to TALK to your NEIGHBOURS; GET TOGETHER and ORGANISE on EVERY ESTATE; GET INVOLVED in your TENANTS' ASSOCIATION; FORM a TENANTS' ASSOCIATION if there is NOT one in YOUR BLOCK: put "NOT FOR SALE" POSTERS in your WINDOWS: COLLECT PETITIONS; ASK your COUNCILLORS for their SUPPORT; and JOIN THE TOWER HAMLETS FEDERATION OF TENANTS ! WE CAN HELP YOU !

..get together and get things done



THESE ARE READY FOR COLLECTION / DELIVERY

Mr Fawcett

→ PS Lord Cockfield
*for estate to see.

Copy PS to Thrippitt

AA 3/10

cc Mr Pelling 3/10
Mr Jacobs
Mr Lawson (Inf)

PROPOSED HAT : LOUGHBOROUGH ESTATE, LAMBETH

Note of a Meeting with the Tenants Association, 27 September 1988

1. Mr Pelling and I attended a meeting chaired by Mary Clark, Chairman of the Tenants Association, at the Sports & Social Club.

2. We were invited for 8pm. However we ascertained from the police, Sgt Williams (tel: 326 2019 or 1212 in an emergency) and PC Graham, that the meeting was to start at 7.30pm. I therefore deduced that the tenants were again going to use Nick Raynsford as warm-up man and so we arranged to arrive at 7.30pm. This proved helpful, since Mr Raynsford's presentation was undoubtedly more restrained and accurate and Mr Pelling was able to start with a positive statement and countered most of Mr Raynsford's points. Mary Clark chaired the meeting well, taking questions one at a time and insisting on silence. Some three quarters of the questions were sensible, a considerable improvement on Angell Town. Despite the microphone not working properly and various interruptions, the meeting was quite constructive. We left at 9.45pm.

3. The police attended the meeting. Although Lambeth Council had said that they would not attend I spotted Ross Fraser. There was someone from Thamesmead and one of their local papers, also Dora Boatemah and others from Angell Town. Numerous photographs were taken.

4. The main points made by the tenants were:

(a) they voted unanimously that there should be a ballot to decide whether or not a HAT should be established;

(b) they would prefer the money for improvement to be given direct to the local authority or to the tenants;

(c) they are very concerned about levels of rents and service charges and security of tenure, particularly if housing associations or private landlords take over from the HAT and are expected to pay a high price;

(d) they want a right to return to the local authority from the HAT, therefore an assurance that the LA will be able to repurchase;

(e) they want a strong tenants' voice on the HAT;

(f) they are worried about their right to return to their flats after any decanting for improvements.

The last point is new to me, but I think it was in response to a hare raised by Nick Raynsford and was not important in itself.

4. Can you please deal with the following action points:

(i) Pass on to the consultants Mary Clark's wish that tenants should not answer any questions from the consultants but simply state that they want a ballot.

(ii) It was alleged that some of the consultants were only interested in answers to factual questions and were not prepared to listen to tenants' views. The names of Steve Walker and Marjory Bulos were mentioned, but I was not clear whether the criticism referred to this specifically. We should discuss at the next progress meeting.

(iii) We have promised that when the consultants' report is published we will send copies to the Tenants Associations.

(iv) It was alleged that there is a conflict between the letter to occupiers and the leaflet on rent policy. I think there is something in this, but what line should we take?

(v) We were treated to a speech from a Peter Lever, who claimed to live in Thamesmead but work for Lambeth Council. He appeared to be totally deranged and his information about Thamesmead was almost entirely wrong. Can Thamesmead Town tell us anything about him?

(vi) We promised a written answer to the list of questions attached.

J G GREVATT
28 September 1988

ENC

answers promised

QUESTIONS TO THE GOVERNMENT'S HAT ADVISORS

This list of questions has been prepared by William Dixon and David Graves, both of us tenants on the estate. They are based on our reading of the Bill and various other documents emanating from the Government and its consultants. We hope that they will help people to get the most out of the meeting.

We have the chance to ask these questions and any others. People should be allowed to press the advisors to give better answers if they appear to be evasive.

1. The government's brief to its consultants says that they should pay regard to the scope for decanting tenants. This makes it clear to us that tenants will be moved out of blocks. Will tenants have a right to return to the flats that they have put time and effort into making their homes.
2. Would you say that the HAT's powers to sell off any buildings or land means that you cannot guarantee the security of peoples existing accommodation.
3. It is part of the government's policy that rents should be freely negotiated between landlords and tenants. Would you like to be a tenant without any property negotiating for a home with a landlord who has more homes than he needs to live in.
4. Do you agree that the most important factor in affecting the outcome of these negotiations will be the landlord's power to deprive a sitting tenant of their home, and that landlord's powers to evict tenants and to harass them with court proceedings is increased by the Housing bill.
5. What level would you expect market rents to reach for a two-bedroom flat in this area.
6. We have been told that any new landlords will have to charge rents affordable to people on low incomes. What is an affordable rent. Will you be specific. Won't it just be what a landlord is able to extort from people who don't want to lose their homes.
7. Would you agree that for people on low incomes the new "affordable rents" will simply mean unaffordable furniture, unaffordable new clothes, unaffordable treats for the kids, unaffordable holidays and unaffordable healthy food.

8. Would you agree that the new landlords would be able to raise their rents above the maximum housing benefit set by the government as £62.50 per household for Lambeth. Would it help them get return on their investment if they charged "just a few pounds more" if they knew that people would pay to avoid legal harassment or losing their home.
9. How do we know they wouldn't introduce all sorts of extra charges for maintenance and repairs.
10. We are told that the Secretary of State may choose a tenant or two to be our representatives on the HAT. Why should we accept someone he has appointed as our representative.
11. Isn't it the case that the other members of the board won't have to listen to the appointed tenant, but that the board will use the existence of the appointed tenant representatives to say that they have "consulted" with them. What structure will there be to make sure this doesn't happen.
12. The consultancy brief issued by the Government to the Property Investment Company asks them to look at the scope for decanting tenants. What power will tenants have to influence the actual decisions over which blocks are decanted and which homes are acceptable as alternatives. How will tenants exercise this power in decision making.
13. One of the other factors the Property Investment Company is to take into account is the amount of available free land for development. What influence will tenants have over decisions about what use to make of this land, eg. improved open spaces etc.
14. Another factor you are taking into account in your consultants' brief for the Property Investment Company is the extent to which people are "dependent on income support" in areas where you want to impose HATs. Why do you consider this as relevant. Is it because you think that these people need HATs, or because you want to attract richer people into the area to make more money and that means taking housing away from poor people.
15. Do you agree that the government is effectively trying to abolish our tenancy agreements with the Council (which were, in fact, freely negotiated) without giving us or the council any choice in the matter. And that from the point of view of democracy and freedom, this is a very serious issue.
16. Where does this leave you as "independent consultants". Would you be happy to carry on working with a HAT that had been set up in a community that is opposed to it. Would you resign if the right to vote is not in the Bill when it finally becomes law.



copy

2 MARSHAM STREET
LONDON SW1P 3EH
01-217 3434

My ref:
Your ref:

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

MBEM

Recd

5/10

5 October 1988

Dear Peter

HOUSING AND LOCAL GOVERNMENT BILL

Thank you for your letter of 9 September about next Session's Housing and Local Government Bill. You will have seen John Wakeham's letter of 12 September on the question of the length of timing of the Bill and my reply. We have been making good progress in sending instructions to Counsel on the main topics and have already received a number of draft clauses. I remain optimistic about having the Bill ready for introduction in January.

I agree with you that, having announced our intention to fund the Local Ombudsman centrally and accordingly to abolish the Representative bodies for England and Wales, we should include the necessary provisions in the Housing and Local Government Bill if at all possible. This raises the question of the proposed 'handout' Bill approved by QL on remedies to deal with recalcitrant councils who refuse to accept the Ombudsman's findings. Counsel has already drawn up a first draft of the Bill but I think that the provision would now best be included in the main Housing and Local Government Bill along with the new funding arrangements and abolition of the Representative Bodies. My letter to John Wakeham seeks his agreement to this course.

I am not entirely clear about your proposal to allow use of Welsh language names for Welsh local authorities. Could I suggest that you set out your policy proposal for colleagues in H Committee?

On the question of the clause enabling the Development Board for Rural Wales to write-off NLF debt I think John Wakeham's letter of 12 September offers hope that this and some other desirable matters, which perforce had to be identified as of slightly lower priority, can now be brought forward. Perhaps your officials could get in touch with mine so that the necessary instructions can be prepared.

I am copying this letter to the Prime Minister, the Lord President, Nigel Lawson, John Belstead, Kenneth Baker, Malcolm Rifkind, John Major, David Waddington, Sir Robin Butler and to First Parliamentary Counsel.

Jansan

Nicholas

NICHOLAS RIDLEY



RECYCLED PAPER

cgp



2 MARSHAM STREET
LONDON SW1P 3EB
01-215 3434

My ref:

Your ref:

The Rt Hon John Wakeham MP
Lord President of the Council
Privy Council Office
68 Whitehall
LONDON
SW1

MBM

4 October 1988

BACG

5/10

Dear John

Ray

Thank you for your further letter of 12 September about the Housing and Local Government Bill.

I am glad that we agree that we should aim to include as much policy material as is practicable in this Bill and I note First Parliamentary Counsel's assurance that it will be given all the drafting priority which the rest of the programme allows. Instructions for most of the substantive parts of the Bill, covering perhaps three quarters of it, have now been sent to Counsel, and the bulk of the Instructions on capital finance will follow in the next few days.

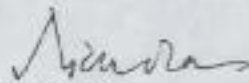
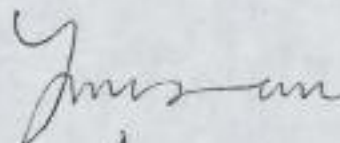
As to priority within the Bill, I should be grateful if this could be given to all of the items listed in my letter of 21 July, including that on local authority fees and charges where as expected colleagues are very keen that we should proceed. In the light of your letter I hope you will be content for Instructions to be sent on some of those items which we had put aside following our meeting in July in the hope that they too can be accommodated in the Bill.

There are also proposals relating to the Local Ombudsman for which you have given drafting authority for a Private Member's Bill. The first draft of this is already available, but since we are including other aspects of the Widdicombe proposals in our own Bill it would seem more logical to include the Ombudsman proposals as well, particularly since we now also wish to include a provision to change the basis of financing of the Ombudsman from a levy to a deduction from the block grant which would not be suitable for a Private Member. I think you would agree that Parliament might be resentful if it became clear that we had simply unloaded a bit of the Widdicombe proposals onto a backbencher that could quite well have been included in a Government Bill.

HOUSING Policy pt 13

Finally, I note what you say about drafting resources. I would indeed like to take up your suggestion that I should see Sir Robert Andrew about this. My office are making the necessary arrangements.

I am copying this letter to the Prime Minister, Nigel Lawson, Kenneth Baker, Peter Walker, Malcolm Rifkind, John Belstead, David Waddington and Sir Robin Butler.



NICHOLAS RIDLEY





1 MTD CUL

10 DOWNING STREET

LONDON SW1A 2AA

From the Private Secretary

29 September 1988

HOUSING ACTION TRUSTS

The Prime Minister had a brief word with your Secretary of State this morning about how the Government should respond to the defeat on the Opposition amendment during Lords Committee on 28 July concerning the balloting of tenants.

It was agreed that it was important to seek to reverse the amendment. Your Secretary of State mentioned that he thought this could be facilitated by a number of small concessions, including providing a commitment that when the life of an HAT came to an end individual tenants would have a genuine choice on future arrangements. It would also be necessary to provide that if tenants wished to revert to the local authority being landlord the Government would need to make additional capital allocations available to the authority, following the precedent already set with new towns.

The Prime Minister concurred with this approach on the basis of the concessions being cleared as appropriate with other Departments.

Paul Gray

Miss Deborah Lamb
Department of the Environment

CONFIDENTIAL

PRIME MINISTER ¹ *ms*

MR RIDLEY AND HOUSING ACTION TRUSTS

Mr Ridley has asked to have 10 minutes with you tomorrow, Thursday. He wants to discuss informally the politics of how to respond to the defeat suffered in the Lords shortly before the recess, when their Lordships gave residents of Housing Action Trusts the right to vote on whether or not a Trust should be set up. He is worried - rightly - that if this provision remains it could prove a major impediment to the establishment of HATs.

The problem is how to get the Lords to reverse their position. Apparently the business managers are saying it would be very difficult to achieve this as well as getting the Health and Medicines Bill changed.

Mr Ridley has in mind a number of possible concessions on HATs - I do not know what - which he wants to take your mind on.

I have told Mr Ridley's office there is no specific time in tomorrow's diary he can have. But he will be here in any event for the meetings of E(A) at 0900, Cabinet at 1030 and railways at 1500. So I have said that if a gap arises either before or after Cabinet he could try to have a word with you then; or failing that if he comes a few minutes early for the 1500 meeting it may be possible for a quick word after your return from the business women's lunch.

PLCC.

P.S. Background paper attached.

Paul Gray

PLCC

28 September 1988

MJ2CUD

CONFIDENTIAL



CCPU.

2 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

28 September 1988

Dear Paul,

HOUSING ACTION TRUSTS

My Secretary of State is seeing the Prime Minister tomorrow to discuss the state of play on HATs. You asked before then for a brief note on the Opposition amendment to Part III of the Housing Bill on which the Government was defeated during Lords Committee. My Secretary of State will want to discuss with the Prime Minister the implications of the amendment in the light of the latest state of play on HATs.

Yours,
Deborah.

DEBORAH LAMB
Private Secretary

Part III of the Housing Bill provides for HATs to be designated and established by affirmative resolution order procedure following consultation by the Secretary of State with the relevant local authorities and after local people have been informed. The Government announced its proposals for establishing HATs in Lambeth, Southwark, Tower Hamlets, Leeds, Sandwell and Sunderland on 11 July (see attached DOE News Release). Since then, there has been continuous pressure from the local authorities and tenants' representatives for ballots to be held to determine whether or not HATs should be established in the areas proposed. The essential argument advanced is that the absence of a ballot about the setting up of HATs is inconsistent with the Government's approach to increasing choice for existing local authority tenants, for example in Tenants' Choice under Part IV of the Bill.

This pressure culminated in a Government defeat (102 - 95) on an Opposition amendment during Lords Committee on 28 July. The amendment now inserted into the Bill would require the Secretary of State to conduct a ballot of tenants living on the estates concerned before making a HAT designation order; and no order could be made unless a majority of tenants eligible to vote approved the proposal.

Following the Lords defeat, Ministers have indicated publicly that they remain of the view that a ballot of tenants in advance of the establishment of HATs would be inappropriate as there would be no chance of a balanced and informative campaign taking place. It is therefore widely expected that the Government will seek to overturn the Opposition amendment when the Bill returns to the Commons in early November.

Against this background, the Association of Metropolitan Authorities have recently indicated that if the Government reverses the Lords amendment, then they will themselves arrange, in conjunction with the 6 local authorities concerned, a coordinated ballot of tenants in the affected areas.

Clause 61

BY THE LORD McINTOSH OF HARINGEY
THE LORD ROSS OF NEWPORT

116C Page 47, line 10, leave out subsection (2) and insert—

“(2) The Secretary of State shall, in each estate in any area in respect of which he proposes to make a designation order, make arrangements for the conduct of a ballot of tenants in the estate, and no order may be made under section 60(1) above in respect of that estate unless a majority of tenants eligible to vote have approved the proposal.

(2A) For the purposes of subsection (2) above, the Secretary of State may make regulations to provide for the definition of ‘tenant’.”)

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 بچھ 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 بچھ 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 ਦੱਸੋ 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.

આપની যদি હાઉસિંગ એક્શન ટ્રસ્ટ સંબંધિત એકાદિ પ્રચારપત્ર પેટે ઠાન તબે દયા કરે નીચેર સ્લિપે આપનાર નામ ઓ ઠિકાના એવં કોન ભાષા઼ એઈ પ્રચારપત્ર ઠાન તા પૂરળ કર્કન એવં નિર્દેશિત ઠિકાના઼ તા ફેરૂ પાઠાન।

English

Tiếng Việt Vietnamese

اردو Urdu

ਬਰਜਪੀ Punjabi

ગુજરાતી Gujarati

বাংলা Bengali

Name

Please return to:-

Address

DEPARTMENT OF THE ENVIRONMENT



LAMBETH LB
1. Loughborough
2. Angell Town

SW9

SE5

CAMBERWELL

BRIXTON

COLDHARBOUR

SE24

BROCKWELL

SW2

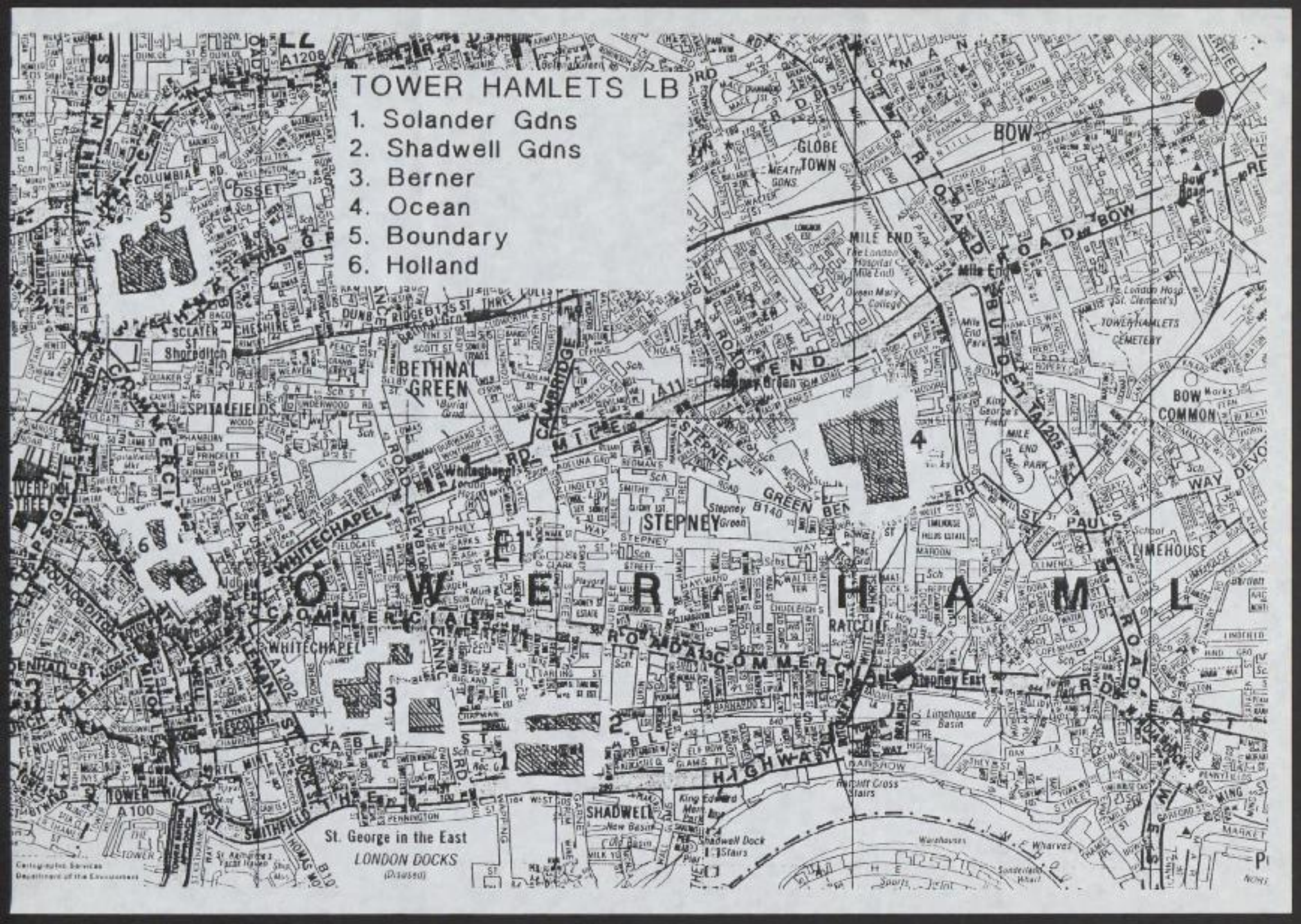
PARK



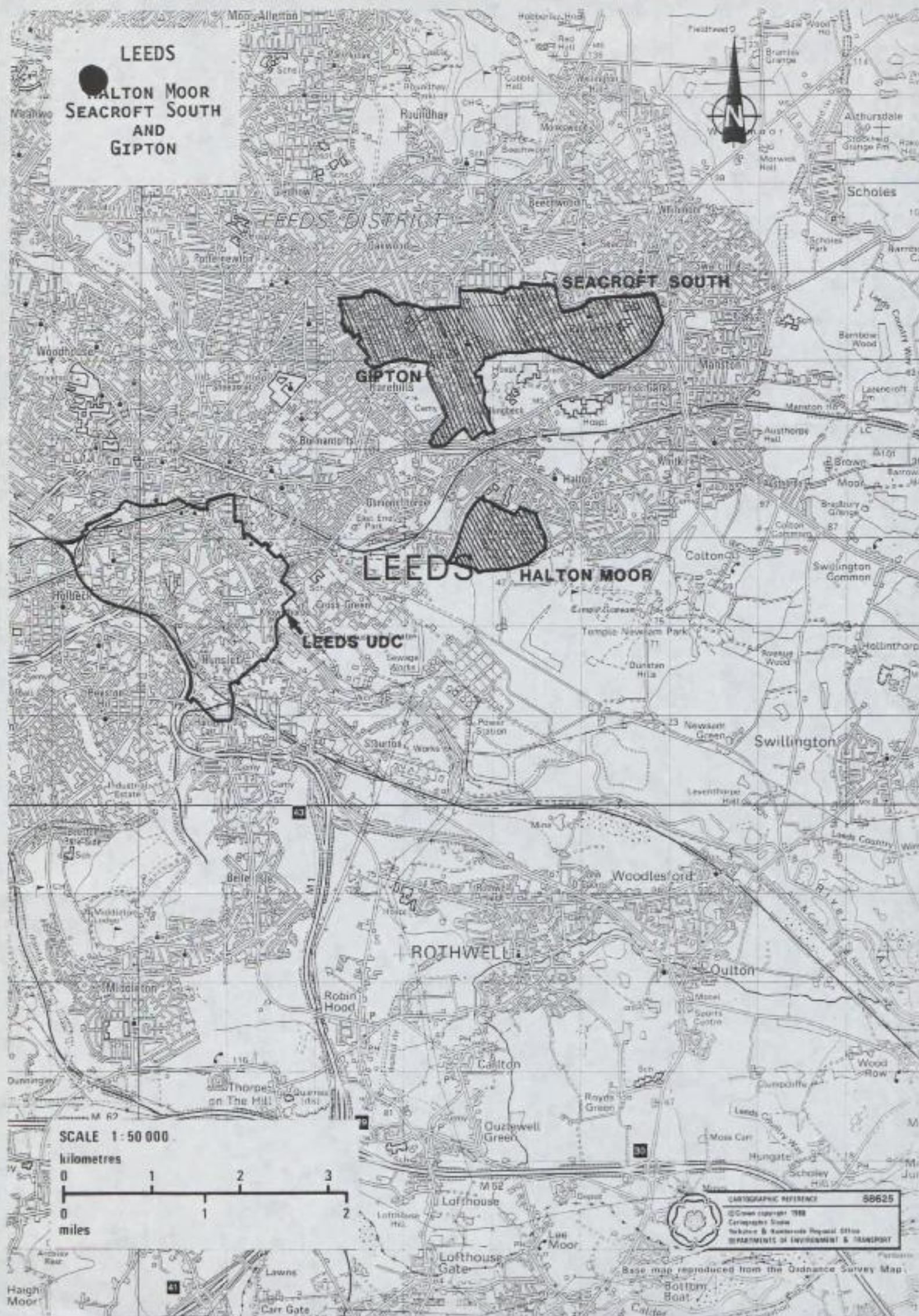
SOUTHWARK LB
 1. North Peckham
 2. Gloucester Grove

TOWER HAMLETS LB

1. Solander Gdns
2. Shadwell Gdns
3. Berner
4. Ocean
5. Boundary
6. Holland



LEEDS
WALTON MOOR
SEACROFT SOUTH
AND
GIPTON



SEACROFT SOUTH
GIPTON
LEEDS
HALTON MOOR

LEEDS UDC

ROTHWELL

SCALE 1:50 000

kilometres



miles



CARTOGRAPHIC REFERENCE 88625
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 Geographical Names
 Ordnance Survey
 DEPARTMENT OF ENVIRONMENT & TRANSPORT

Base map reproduced from the Ordnance Survey Map



SANDWELL

- 1. WHITEHEATH AND
- 2. WINDMILL LANE

Scale 1:50000



FILE KK(63)
a Policy Unit

10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

15 September 1988

**REVIEW OF HOUSING SUBSIDY
FOLLOWING LARGE SCALE DISPOSALS OF STOCK**

Thank you for your letter of 11 August. The Prime Minister does not wish to make further comments on your Secretary of State's proposals at this stage. I assume however that you will be arranging for the consultation paper to be circulated before publication.

Copies of this letter go to the Private Secretaries to members of E(LF) and to Sir Robin Butler.

(PAUL GRAY)

Miss Deborah Lamb,
Department of the Environment.

CONFIDENTIAL

LB

CCP



PRIVY COUNCIL OFFICE
WHITEHALL, LONDON SW1A 2AT

12 September 1988

Dear Nick,

NBRM
RIG
14/9

LEGISLATIVE PROGRAMME 1988/89: HOUSING AND LOCAL GOVERNMENT BILL

like with
PG

Thank you for your letter of 25 August about this Bill, and about the adequacy of drafting resources for Government legislation. I have also seen Peter Walker's letter of 9 September.

Let me say straightaway that I would not want to be absolutely rigid about a limit of 120 clauses. That was, of course, the approximate length that you yourself suggested for the Bill's vital provisions, and it happened to be in line with my own rough assessment of what was practicable for a Bill that was not starting until the end of January in a very heavy session. But I would naturally accept the situation if a few more clauses were needed to accommodate some important topic. And if the Bill could start somewhat earlier than we envisaged when we met in July, then that would have an obvious effect on the assessment. I fully agree that the aim should be to include as much agreed policy material as is practicable on the Bill's timescale, provided that it is correctly prepared and drafted, and thus does not require extensive amendment during its passage.

I am not sure if you are suggesting that shortage of draftsmen is the main constraint on the Government's legislative programme, but I for my part could not agree with any assessment that left the Parliamentary dimension out of account. There is a limit to what can be taken through both Houses of Parliament in a single session, and I think we have probably been approaching that limit. In the present case a main reason why the preparation of the contents of next session's Bill has fallen behind the timetable outlined to QL is surely the burden represented by the present session's Bill, and the fact is that this still needs considerable further work done on it in the House of Lords. As I mentioned in my previous letter, however, the general question of drafting resources is within the scope of Sir Robert Andrew's review of Government legal services. I understand that Sir Robert has already taken evidence from your officials and from Michael Howard, but I am sure that he would be very happy to hear from you direct if you would like to put any views to him on this point.

But whatever views may be taken of drafting resources in the longer term, the room for manoeuvre in the short run is very limited indeed. As Cabinet accepted, the agreed programme is at the limits of what is feasible, and there is no way in which new drafting resources could be brought to bear on any Bill without jeopardising the preparation of other parts of the programme. First Parliamentary Counsel assures me that the Housing and Local Government Bill will be given all the drafting priority that the rest of the programme allows, but he does not believe that this major Bill (on which the final

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

CONFIDENTIAL

instructions are still awaited) can be prepared before Christmas. From my point of view the essential thing is that the Bill should be introduced by the end of January at the very latest, and I suggest that we should discuss nearer the time if there is any problem with that timetable, or if any important issues cannot be accommodated at the time of introduction in a Bill of the rough size we have been discussing. In the meantime, I know that it will be helpful to the draftsman if your officials could indicate the order of priority that should be attached to the various provisions, for working purposes.

I am copying this letter to the Prime Minister, Nigel Lawson, Kenneth Baker, Peter Walker, Malcolm Rifkind, John Belstead, David Waddington and Sir Robin Butler.



JOHN WAKEHAM

CONFIDENTIAL



HOUSING Plan pt 17

Prime Minister²

Confirms that the Chancellor told
you earlier in the week. REC 6 9/9

PRIME MINISTER

9 September 1988

BES FOR RENTED HOUSING

There is encouraging news that the Budget extension of the BES to rented housing will prove a success. 10,000 houses may be bought into the private rented sector as a result of funds raised through BES the first year of the scheme.

£500 million in first year

Most BES funds are launched during two annual "windows" - September/October and February/March. Inland Revenue believe that funds raised for rented housing in the current September/October window could exceed £200m. This is more than the BES has ever raised previously in a full year. Charles Fry of Johnson Fry the leading BES promoters, forecasts that £500m will be raised under BES over the whole tax year.

The number of houses built or aquired with these funds depends on how much loan capital the BES funds raise in addition and the cost of the houses involved. But at £75,000 a house and with £250 million loan capital in addition to £500 million equity, some 10,000 houses would be brought into the private rented sector.

Attractions for Investors

It looks as though this scheme will attract investors new to the BES who see advantage in investing untaxed income in the residential property market. This is a relatively risk free investment. Even if house prices do not rise, no dividends are paid and an investor has to sell at a discount of 15% on the market value of the underlying assets the tax relief

gives a return after tax over the five years at an annual rate of 7%. In practice returns are likely to be substantially higher than this.

Nationwide Anglia Promoting a Major Scheme

Two major BES funds are due for launch next week. Nationwide Anglia are aiming to raise up to £100m and Sun Life up to £30m. Nationwide Anglia will invest in up to 20 companies each with one director nominated by them. They have set up a subsidiary (Nationwide Anglia Fund Management) to manage the fund. Housing managers will be appointed by individual companies by competitive tender. Likely candidates are housing associations and Quality Street. Quality Street, Nationwide's rented housing associate, is headed by the energetic and innovative former Director of Housing in Glasgow, Paul Mugnaioni.

Properties, rents and tenants

Nationwide expect the companies to invest in a range of types of property - newly built and second hand - from one bedroom flats to three bedroom houses - with the emphasis on quality. Rents are estimated at 7% of gross value - £100 a week on a £75,000 house. They expect to let to particularly mobile young professionals and perhaps also the separated and divorced who temporarily need rented housing.

The longer term

One of the tests of the success of the BES scheme will be whether the houses involved continue in the private rented sector or whether, at the end of five years, investors have to sell into owner occupation in order to get their money out. Under the "fair rent" system tenanted houses sell at a substantial discount to market value reflecting the low net income available from fair rents. By contrast, unless the

BES expansion is so successful that it generates an excess of supply over demand, houses let at market rents under assured tenancies should produce a return comparable to that from other investments.

An exit route for investors

It should therefore be possible to arrange schemes so that investors can get their money back without the houses having to be sold into owner occupation, for example by selling their shares to other investors. The Nationwide Anglia are hoping to give BES investors an exit route of this kind by managing a flotation or setting up a unit trust in the BES companies involved. This would buy shares from BES investors with the funds raised and enable the general public to invest in rented housing.

Effect on housing market

The one cloud on the horizon at the moment is the effect of this extra demand on the housing market. If the scheme is as successful as forecast, it is bound to fuel house prices.

Conclusion

The Budget extension of the BES scheme to rented housing looks like being successful in attracting investors and starting to build up a new style private rented sector. The real test of success however will be whether the houses concerned stay in the private rented sector in the medium to long term. There are encouraging signs that some promoters are looking at ways of ensuring this. The only cloud on the horizon is the effect of such an increase in demand on an already overheated housing market.

Peter Stredder

PETER STREDDER

CCPU



Y SWYDDFA GYMREIG
GWYDYR HOUSE
WHITEHALL LONDON SW1A 2ER
Tel. 01-270 3000 (Switstwrdd)
01-270 0538 (Llinell Union)

WELSH OFFICE
GWYDYR HOUSE
WHITEHALL LONDON SW1A 2ER
Tel. 01-270 3000 (Switchboard)
019828 (Direct Line)

Oddi wrth Ysgrifennydd Gwladol Cymru

From The Secretary of State for Wales

The Rt Hon Peter Walker MBE MP

9 September 1988

NBAW

Rice m/s

Dear Secretary of State

LEGISLATIVE PROGRAMME 1988/89: HOUSING AND LOCAL GOVERNMENT BILL

Thank you for copying to me your letters of 3 and 25 August to the Lord President.

at first
with regard if request

I too am not very happy that the Housing and Local Government Bill is being curtailed merely because of the shortage of draftsmen. As you say, short-term savings by eliminating clauses in this Bill will not save us work in the medium to longer term. Generally I would like to see as many as possible of our proposals for the reform of the conduct of local authority business included in this Bill.

At present I am particularly concerned about 3 issues. The first is possible delay in the abolition of the Representative Bodies for England and Wales. We have agreed that these bodies should be abolished and that legislation should be brought forward at the earliest convenient opportunity. In this context you will recall that we agreed in principle in 1986 that Internal Drainage Boards should be brought within the jurisdiction of the local ombudsmen. If we do not provide primary legislation to abolish the Representative Bodies now or at an early opportunity then we may have to use secondary legislation in the interim to amend their membership and charging regimes. We should avoid that unproductive work by abolishing the Representative Bodies.

Secondly I would press for a clause in the Housing and Local Government Bill to amend sections 21 and 33 of the Local Government Act 1972 which specify the nomenclature of District and County and Community Councils, so as to enable authorities to use a Welsh Language version only of their titles. As you will appreciate Welsh Language issues are particularly sensitive and I wish to make early progress.

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



Finally we have previously corresponded about the dropping of a clause in the Bill to enable the Development Board for Rural Wales to write off outstanding NLF debt. I attach particular importance to this clause and I am not content to see it fall just because of a shortage of drafting capacity.

I am copying this letter to the Prime Minister, the Lord President, Nigel Lawson, John Belstead, Kenneth Baker, Malcolm Rifkind, John Major, David Waddington and Sir Robin Butler.

Yours sincerely

Keith Davies

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

HOUSING: Policy Pt 13





cc PU

Y SWYDDFA GYMREIG
GWYDYR HOUSE
WHITEHALL LONDON SW1A 2ER
Tel. 01-270 3000 (Switsfwrdd)
01-270 (Llinell Union)

Oddi wrth Ysgriafonydd Gwladol Cymru

WELSH OFFICE
GWYDYR HOUSE
WHITEHALL LONDON SW1A 2ER
Tel. 01-270 3000 (Switchboard)
01-270 (Direct Line)

From The Secretary of State for Wales

The Rt Hon Peter Walker MBE MP

5 September 1988

NBPA
RACG
6/9

Thank you for copying to me your minute of 17 August to the Prime Minister about your proposal to abolish the Homeloan scheme in next session's Housing and Local Government Bill.

I agree with your proposal. There has been very little interest in the scheme in Wales and it has clearly outlived its usefulness. As you point out, the scheme would require major improvements to make it effective which apart from the cost implications would simply add another boost to house price inflation.

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

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

Herring

Blair

Pt 13



RESTRICTED



Mr Pinn
(60)

10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

26 August 1988

HOUSING AND LOCAL GOVERNMENT BILL 1988/89

The Prime Minister has seen your Secretary of State's minute of 17 August on which the Financial Secretary to the Treasury has commented as has Lord James Douglas-Hamilton, who had proposed extending abolition of the Homeloan Scheme for Scotland in the same Bill.

The Prime Minister is content with your Secretary of State's proposal.

I am copying this letter to the Private Secretaries to the Secretaries of State for Scotland, Wales and Northern Ireland, other members of E(LF) and to Trevor Woolley (Cabinet Office).

Dominic Morris

Roger Bright, Esq.,
Department of the Environment.

RESTRICTED

Pinn

Prime Minister

HOUSING AND LOCAL GOVERNMENT BILL 1988/89

WITH DM?

I am writing in Malcolm's absence, having seen Nicholas Ridley's minute of 17 August to you, in which he proposes the inclusion of a provision in next session's Housing and Local Government Bill to abolish the Homeloan scheme. May I say that I strongly support the underlying aim of making house purchase easier for first time buyers. Also I am convinced that there is very strong support for low cost home ownership in Scotland, and this is being given a higher priority by the Housing Corporation in Scotland. Nonetheless the scheme concerned has not achieved the desired purpose. The Homeloan scheme operates in Scotland in exactly the same way as in England and Wales, and our experience of its effectiveness is, if anything, even more dismal than the experience south of the Border.

In 1987/88, for example, there were only ten applicants in all Scotland; and indeed in 1984/85 and 1985/86 there were only four. It therefore seems even less worthwhile to continue it in Scotland than in England and Wales, and I agree with Nicholas's general arguments, which of course apply in Scotland too, that the best course would be to abolish it.

I would like to propose that the abolition for Scotland should be accomplished also in the Housing and Local Government Bill. There should be no drafting problems in that, since the statutory provisions for Scotland, although now separately consolidated in the Housing (Scotland) Act 1987, are in identical terms to those for England and Wales. To include the Scottish Provisions would not therefore add to the one or two clauses which Nicholas thinks would be needed to provide for abolition of the scheme.

I am copying this minute to Nicholas Ridley, Peter Walker, Tom King, other members of E(LF) and Sir Robin Butler.

James Douglas Hamilton

JAMES DOUGLAS-HAMILTON

26 August 1988



SCOTTISH OFFICE
WHITEHALL, LONDON SW1A 2AU

cc PU

nbpm

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

26 August 1988

Dear Nicholas

REVIEW OF HOUSING SUBSIDY FOLLOWING LARGE SCALE DISPOSALS OF
HOUSING STOCK

at Map A12

I refer to your minute of 27 July to the Prime Minister seeking agreement to the drafting of a consultation paper on the review of housing subsidy following large scale disposals of housing stock.

I am content that you should proceed as you have proposed and I have no comments on the content of your minute and the associated memorandum.

I do not propose, however, to take similar action in respect of housing subsidy in Scotland. The limitations of your housing subsidy regime do not apply north of the border where subsidy is calculated in a different way. Housing subsidy entitlement for Scottish local authorities does not start from the basis of the previous year's entitlement. The calculations are based on actual loan charges; and the bizarre results to which you refer would not therefore arise in Scotland. I am satisfied that my existing system can deliver the objectives towards which your proposed changes are directed.

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

ans over

MALCOLM RIFKIND

HOUSING: Policy Pt 13



esd



2 MARSHAM STREET
LONDON SW1P 3EB
01-212 3434

My ref:

Your ref:

Abpm

The Rt Hon John Wakeham MP
Lord President of the Council
Privy Council Office
68 Whitehall
LONDON
SW1

25 August 1988

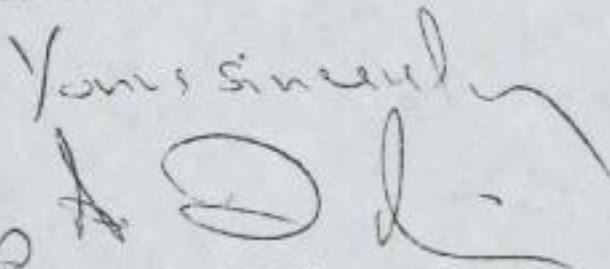
Dear Lord President,

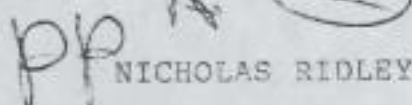
WILL REQUEST IF REQUIRED

Thank you for your further letter of earlier this month about next session's Housing and Local Government Bill.

I accept of course what you say about the need to limit the size of the Bill should it not be possible to effect introduction before the end of January, although I am not persuaded that that limit needs to be as restrictive as you propose. I cannot accept that the Bill should be introduced so late: and there are clear benefits as far as Parliamentary time is concerned in including as much as possible in the one Bill. In addition, most of the instructions on the matters which I would intend to bring forward could be with the Parliamentary draftsman by the end of September. It is quite unacceptable that in these circumstances we may need to exclude from the Bill material to which I and other colleagues attach considerable importance simply because of the shortage of drafting capacity. I therefore urge you to reconsider what might be done to increase that capacity during the next few months to enable an earlier introduction for the Bill and the inclusion of all those important matters where instructions are substantially prepared. In any event I think we should strive to have the Bill ready before Christmas.

I am copying this letter to the Prime Minister, John Belstead, Nigel Lawson, Kenneth Baker, Malcolm Rifkind, Peter Walker, David Waddington and Sir Robin Butler.

Yours sincerely


pp

 NICHOLAS RIDLEY

(Approved by the Secretary of State
and Signed in his Absence)

①
PRIME MINISTER

Mr Ridley seeks your approval (Flag A) to adding one or two clauses to next session's Housing and Local Government Bill in order to abolish the Homeloan Scheme.

Treasury Ministers have written supporting his proposal (Flag B). No other Minister has dissented.

As I recall, the scheme was introduced by the last Labour Government. I looked at it when I was a first time buyer in 1978 and thought even then that it involved more bureaucracy than the relief was worth. The main issue therefore seems to be whether abolition gives the Opposition a cheap debating point. Mr Ridley's note offers a suggested presentational defence for abolition.

Content for the scheme to be abolished?

Am

Yes no

Dominic Morris

25 August 1988

ccp



Treasury Chambers, Parliament Street, SW1P 3AG

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

24th August 1988

Dear Nick

HOUSING AND LOCAL GOVERNMENT BILL 1988/89

at flap

I have seen a copy of your *minute* of 17 August to the Prime Minister recommending abolition of the Homeloan scheme.

I agree that as it stands, the scheme is not operating effectively and represents rather poor value for money. Moreover, an effective scheme would be costly to implement and would have adverse implications for house price inflation. I therefore support your suggestion that the Homeloan scheme should be abolished, with the necessary legislation being included in the Housing and Local Government Bill.

Copies of this letter go to the Prime Minister, Malcolm Rifkind, Peter Walker, Tom King, other members of E(LF) and to Sir Robin Butler.

Your
Norman

NORMAN LAMONT

Housing: Policy A 13

1950 1951 1952

CONFIDENTIAL



ccfu
nbpm

Treasury Chambers, Parliament Street, SW1P 3AG

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

23 August 1988

Dear Secretary of State,

REVIEW OF HOUSING SUBSIDY FOLLOWING LARGE SCALE DISPOSALS OF STOCK

Thank you for copying to John Major your minute of 27 July to the Prime Minister. I am replying in his absence. I have seen the correspondence between your Private Secretary and the Prime Minister's Private Secretary, and Peter Walker's letter to you of 11 August.

I agree that your proposals for 1989-90 are sensible and would ensure that subsidy is paid on a more equitable base than under the present system. I also agree with your suggestion that the split between central and local contributions to any remaining debt costs after sale should be 75:25. I am concerned to ensure that local authorities should have an incentive to sell their property at the highest possible price.

As you say, the ring fencing plans that come into effect in 1990-91 will mean some amendment of these proposals. I would be grateful if Treasury officials could be consulted in working up the detailed paper that your officials will be providing.

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

Yours sincerely

Rosie Chadwick

pp PETER BROOKE

(Approved by the Paymaster and signed in his absence).

HOUSING: POL Pt 13



PRIME MINISTER



HOUSING AND LOCAL GOVERNMENT BILL 1988/89

I am writing to seek policy approval to abolish the Homeloan scheme in next session's Housing and Local Government Bill.

The Scheme

Homeloan is an ineffective scheme designed to give cash help to first-time homebuyers. Intending beneficiaries must go through a bureaucratic procedure of registration and then save with a building society or other savings institution for at least two years. Depending on how much they save they are then eligible for a grant of between £40 and £110 and, if they have saved at least £600, they also qualify for a loan of £600 free of interest and capital repayments for five years. They are entitled to these benefits only if they buy a house costing less than the prescribed limit for their region.

There is simply no incentive for anyone to save for two years in order to qualify for these trifling sums. In that time, the rise in the price of houses will more than wipe out the benefit. The scheme has never attracted its intended target, which is two-thirds of first-time buyers. Last year there were only 2,500 customers - just 0.4% of first-time buyers - and the gross cost to the Department of the Environment was just over £1.75 million (if it reached its intended target, the scheme would cost over £290 million). At the moment the Department's Homeloan accounts are showing a surplus, since repayments of loans now exceed the amounts being paid out in loans and grants.

In 1986 the Environment Select Committee described the scheme as trivial and recommended that it should be reviewed. This call for a review was repeated last year. Last year the Building Societies Association, whose members shoulder most of the costs of



administering the scheme, recommended that it should be discontinued.

The choice is between abolition and improvement. Improving the scheme to the point where it was effective would have serious cost implications, which would be difficult to justify at a time when the annual numbers of first-time buyers are running at very high levels. Moreover, the availability of large grants and interest-free loans would simply fuel increasing house prices without necessarily making it easier for would-be first-time buyers. I therefore recommend that we grasp the nettle and abolish the scheme entirely. I understand that the provision will require only one or two clauses; and it can be accommodated within the clause limit for the Bill agreed with the Business Managers.

Presentation

Abolition of the Homeloan scheme could be depicted by our opponents as removing the Government's only form of assistance to first-time buyers at a time when they are already finding life difficult because of rapidly rising prices, increasing mortgage rates and the withdrawal of double mortgage tax relief for joint purchasers.

I would propose the following response:-

- we reviewed the scheme, in line with the recommendation of the Environment Select Committee;
- we have concluded that it is clearly not cost-effective in its present form;
- we could not justify increasing the grant for the reasons given above;



- in any case, we already give considerable assistance to first-time buyers through mortgage interest tax relief.

Conclusion

I should be grateful for your agreement and that of colleagues to the abolition of the Homeloan scheme being included in the Housing and Local Government Bill.

I am copying this letter to Malcolm Rifkind, Peter Walker, Tom King, other members of E(LP) and to Sir Robin Butler.

A handwritten signature in dark ink, consisting of stylized initials 'N R'.

N R
17 August 1988



CEFU
 7 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

11 August 1988

Dear Paul, ^{already rec'd} *RL*

REVIEW OF HOUSING SUBSIDY FOLLOWING LARGE SCALE DISPOSALS OF STOCK

Thank you for your ^{How} letter of ~~29~~ 27 July to Roger Bright reporting the Prime Minister's initial reaction to my Secretary of State's proposal of 27 July about housing subsidy following large scale disposals of stock.

The scheme in 1990-91 may indeed have to be slightly different from the one proposed for 1989-90, in order to achieve a complete fit with our ring-fencing plans. The principles remain the same, however, and we do not see any insuperable problems. Officials will provide a detailed paper.

We are consulting the Attorney General on the retrospective elements of the proposal.

Copies of this letter go to the Private Secretaries of members of E(LF) and to Sir Robin Butler.

Yours,

Deborah.

DEBORAH LAMB
 Private Secretary

Housing Policy PTB



[Faint, illegible text, possibly bleed-through from the reverse side of the page]

ccfu



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From The Secretary of State for Wales

The Rt Hon Peter Walker MBE MP

rbpm

SKX

11 August 1988

Dear Secretary of State

REVIEW OF HOUSING SUBSIDY FOLLOWING LARGE-SCALE DISPOSALS OF STOCK

I have seen a copy of your minute of 27 July ^{Nov} to the Prime Minister. I am content with the general thrust of your proposals and would be happy for the consultation paper to be a joint document. Perhaps you would arrange for my officials to be kept in touch with the preparation of the draft.

I do believe however that we should consider further the rate of subsidy to be applied to non-HATs cases. Whilst I recognise the need to ensure a proper valuation, our contacts with local authorities indicate that we are most unlikely to achieve our shared policy objective of encouraging major disposals if significant costs are left with the remaining tenants or in the case of whole stock disposal, the rate payer/community charge payer. 75% would certainly act as a major disincentive. I should prefer to see a rate of around 90%.

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

Yours sincerely
Keith Davies.

Approved by the Secretary of State
and signed in his absence

The Rt Hon Nicholas Ridley MP
Secretary of State for the Environment
Department of the Environment
2 Marsham Street
LONDON
SW1

HOUSING: POLYMER PT13



cc: P.V.



2 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

B/F to PG 200.

August 1988

Dear Paul

REVIEW OF HOUSING SUBSIDY FOLLOWING LARGE SCALE DISPOSALS OF STOCK

Thank you for your letter of 29 July reporting the Prime Minister's initial reaction to my Secretary of State's proposal of 27 July about housing subsidy following large scale disposals of stock.

The scheme in 1990-91 may indeed have to be slightly different from the one proposed for 1989-90, in order to achieve a complete fit with our ring-fencing plans. The principles remain the same, however, and we do not see any insuperable problems. Officials will provide a detailed paper.

We are consulting the Attorney General on the retrospective elements of the proposal.

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

R BRIGHT
Private Secretary

Housing: Policy Pt 12

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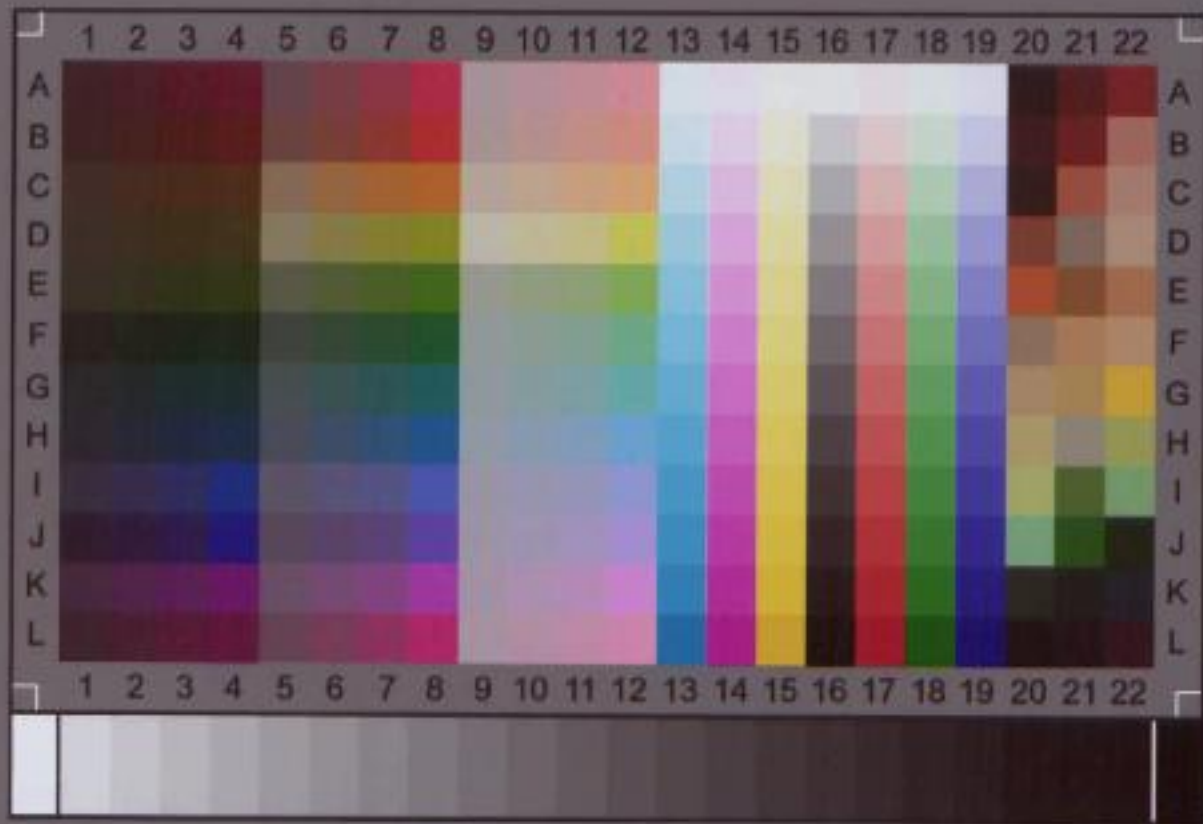
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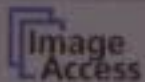
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