APPENDIX A

CONFIDENTIAL

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FINAL REPORT OF THE HOME OWNERSHIP AND CONSTRUCTION INDUSTRY POLICY GROUP

The Group was set up in May 1975 to examine ways and means of expanding home ownership and avoiding sharp fluctuations in the construction industry. The Group was composed of Members of Parliament and outside experts with a wide range of experience. An interim report was issued in July 1975 and its main recommendations were that home ownership should be expanded to a level nearer that of other countries like Australia and that, to achieve this, additional help for the first time house buyer was essential.

This report is divided into two parts:- the expansion of home ownership and the construction industry - and should be read in conjunction with the reports of other housing policy groups.

Section A

HOME OWNERSHIP

The Group is firmly committed to a policy of a substantial expansion of home ownership. There are three major reasons for this. First, home ownership encourages independence and self-reliance and is therefore very much in line with Conservative philosophy. Second, home ownership represents an excellent bargain for public funds. The average exchequer subsidy on a newly built council house in the first year is about £875 according to the Government's figures. This is calculated on the pool rate of interest which at the moment is somewhat below the rate payable on new long term borrowing and does not include any subsidies from the rate fund or the cost of management and maintenance. Subsidies from all sources probably amount to about £1,300 whereas the tax relief on an average new mortgage is about £290. These comparisons are only valid for the first year (see Appendix 1). If an average subsidy is taken for all council houses, the subsidy per council house was £204 per annum in 1975-6 at 1975-6 out-turn prices for England and Wales. The average tax relief per owner occupier (including option mortgage subsidy) was £91. Thus it is clear that substantial assistance to lower paid families to buy their homes can be justified on economic grounds. Provided that fewer council houses are built, such help can be provided whilst making substantial savings to public funds. Third, it is perfectly clear that the vast majority of families want to own their own home. This is very clearly shown by the unpublished 1975 "Survey of Attitudes Towards Current and Alternative Housing Policies" prepared by the British Building EDC. 69 per cent of those sampled wanted ideally to be owner occupiers in two years time and in the 20-24 age group the figure was as high as 78 per cent.

Arguably the most important requirements for a vigorous expansion of home ownership are on the demand side:

1) A reasonably low level of inflation.

2) A determination not to promite excessive stimulation of the money supply.

3) The avoidance of sharp fluctuations in the flow of money to the building societies. It is particularly important that the Government should not exercise political control over the societies' funds although a continuing dialogue between the Government and the building societies will clearly be essential.

4) The raising of council rents to make home ownership more attractive financially.

On the supply side of the equation the main factors are:

1) A proper degree of long term confidence for builders.

2) An adequate and continuing flow of genuinely available building land.

The Group believes that there are many families who would prefer home ownership but who without any additional financial help can see no alternative to becoming council tenants. Taking a typical three bedrocmed house with a unit cost of £9,880, the gap between rent payments and mortgage payments for a man on £60 per week is very wide with monthly rent payments at £34 and monthly mortgage payments at £53 after allowing tax relief on an 80 per cent mortgage. The man earning £45 per week would pay £28 month in rent and £57 per month on an 80 per cent mortgage. The initial costs of buying a house are also high; a deposit of at least £1000 would normally be needed and on top of that are the cost of surveyors' fees, conveyancing and furniture. The Group has considered various schemes for helping young families into home ownership. We would emphasize that the implementation of any of these schemes should be gradual to ensure that housebuilders were enabled to react to the increased demand and so prevent or minimize house price inflation, unless the demand for new homes was sufficiently weak to justify an immediate stimulus. These schemes may be divided into those which involve Government subsidy in one form or another and those which are self financing.

A. <u>SELF FINANCING SCHEMES</u>

i) <u>Low Start Mortgages</u>

This type of mortgage was originally proposed by the last Conservative Government and was ready for introduction at the time of the February 1974 Election. After a years delay <u>Mr. Crosland</u> announced that the building societies had agreed to introduce the scheme. So far the Government's scheme has not had much success but some societies in particular have encouraged their own schemes, notably the Alliance Building Society. They currently run two schemes. The first is their <u>Deferred Interest Scheme</u> introduced five years ago and aimed at young professional men or women likely to increase their income in real terms relatively quickly. The mortgagor pays no capital repayment and two per cent less than the full interest payments for the first five years with his mortgage increased accordingly. Over the next 30 years the new mortgage is paid off in the normal way. The second is their <u>Easy Start</u>

scheme which involves no capital repayment for 8 years; in the first three years 1 per cent less interest is paid. The new mortgage is then paid off over the remaining 27 years. This scheme is designed for a wider section of the public. The Group feels that whilst low start schemes will not be sufficient on their own to secure a large expansion of home ownership, they are nonetheless attractive to some mortgagors and should be encouraged.

B. SCHEMES INVOLVING GOVERNMENT SUBSIDY

Introduction

The Group realizes the urgent need to restrain public expenditure. However we believe very strongly that an important way of increasing home ownership is to build less council houses and use some of the money saved to give people on local authority waiting lists a choice between buying and renting. Detailed consideration of ways and means of helping first time buyers is covered below.

i) The Hughes Fixed Proportion of Income Scheme

This scheme was proposed by Gordon Hughes writing in the Housing Research Foundation publication "Inflation and Housing". It is essentially a variant of the low start scheme. A given percentage of income is paid by the mortgagor and the difference between that and the full cost of the mortgage is added to the total mortgage. As his income increases in money terms so the proportion of the mortgage met increases until within a comparatively short time, he is actually paying off the mortgage in the normal way. As with the low start scheme, once this point has been reached, mortgagors could have the option of transferring to a normal mortgage.

Alternatively the proportion of income paid could be gradually reduced so that mortgage repayments did not rise as quickly as income; this might be important to offset poverty trap criticisms. Building Societies would have great difficulty in operating this scheme because the debt could rise in an unpredictable way. (See Appendix III)

ii) Building Society Share Rate

At present the building societies pay tax on behalf of their investors at the composite rate of tax. Essentially this will not change very much unless the rate of income tax is changed. The suggestion was made in 1974 that the Income and Corporation Taxes Act (1970) be altered to allow for a new share rate which could be moved up and down to regulate the flow of funds from investors and therefore the flow or cost of funds for house purchase. We are conscious that the level of interest rates prevailing at the time of the next election might mean that this scheme be held in reserve for such a contingency.

iii) 9½% Mortgages

Our last Manifesto pledged the Party to a 9½ per cent maximum mortgage rate for the lifetime of this Parliament. This was to be done by providing a subsidy costing £180 million a year assuming that the mortgage rate would otherwise have been 11 per cent. The Group understands the reason for this pledge but feels that circumstances have changed since October 1974. Home owners who were then suffering from the rapid rise in mortgage rate and the stabilisation in house prices have now seen their circumstances improve. Indeed the mortgage rate has now been reduced to 10½%. We also feel that public expenditure considerations rule out the adoption of a scheme which offers help indiscriminately. If money is available we believe that it should be directed to those who otherwise could not afford to buy and would thus be forced into very expensive council houses.

iv) <u>The Grant for the Deposit Scheme</u>

Our second proposal in the October 1974 Election Manifesto was a Home Savings Grant Scheme. The proposal was to give first time purchasers of private houses and flats special help in paying the deposit by contributing £1 for every £2 saved up to a given ceiling. The scheme would take at least two years to mature in order to give builders sufficient time to increase the building of homes for sale. Safeguards as to the maximum income of the saver, maximum house price and maximum age could be introduced to reduce any indiscriminate element in the scheme. The Group agreed that this was an ideologically attractive scheme and had to be seen in the context of the alternative of high subsidies to new council building. However resources for helping expand home ownership were limited. Thus this scheme had to be seen as a substitute for one of the other schemes and not necessarily as an addition to it. The Group believes that it could well be introduced at some stage in the future. Appendix II gives a description of a similar schemes' operation in Australia.

v) <u>The Shared Purchase Scheme</u>

This scheme was first outlined by John Stanley in his CPC pamphlet "Shared Purchase" (April 1974). It featured in the Liberal Party's October 1974 Election Manifesto and a local authority version of this scheme, called half-and-half, has now been successfully launched by the Labour Controlled Birmingham Council. Other councils, both Conservative and Labour, are likely to introduce half-and-half schemes this year including the GLC.

All the present means of house purchase require the purchaser to find 100% of the capital cost of the house at the time of purchase. Though someone may be willing and able to raise 60%, 70% or 80% of the cost of the cheapest house in the area there is no way at the moment that they can then immediately start up the home ownership ladder; they often therefore apply for council housing. The object of Shared Purchase is to reduce the high demand for expensive council housing by enabling home-buyers to acquire initially less than a 100% equity interest in their home and to buy the balance later on.

To buy a house using the scheme the purchaser would take out his maximum mortgage in the normal way. The balance of the purchase price would be provided by Finance for Housing (FFH), a new institution modelled on the lines of Finance for Industry (FFI). FFH would raise medium/long-term fixed-interest finance from private institutions - principally pension funds and insurance companies - on commercial terms. The payment of interest and repayment of capital to the institutions by FFH would be a liability on the Exchequer.* The house purchaser could pay rent either immediately or after say 5 years on the balance of the pur-

*Some members of the Group feel that there might be difficulties in funding the scheme in the early years and that temporary Government loans or grants might be necessary.

chase price provided by FFH which would maximise the incentive for him to increase his equity interest in his house to 100% as soon as possible. Alternatively, the purchaser could receive the FFH contribution to the purchase price gratis, which would minimise the size of the FFH contribution because the purchaser would be able to take on a bigger mortgage through not having a rent liability.

On the resale of the house the purchaser would forfeit to FFH the proportion of any capital gain equivalent to FFH's equity interest. From the outset the purchaser would assume full liability for all outgoings but would have the right at any time to buy out the FFH equity interest in one or more stages at the current market price of the house (provided it was no lower than the original purchase price) less the value of any improvements.

The merits of the Shared Purchase Scheme are considered to be as follows:-

a) It makes the maximum use of the existing sources of mortgage finance, and in no way alters the present relationship between mortgagors and building societies who will have to take into account all liabilities including any payment of rent on the balance of the equity in assessing the mortgage.

b) It restricts the element of subsidy to the absolute minimum required to enable some of those who are now adding to the demand for more council houses to switch to home-ownership. Every such switch represents a net <u>reduction</u> in public expenditure (as is illustrated on page 1).

c) The inflationary effect on house prices of the scheme would be directly minimized by restriction of the scheme to:

(i) Houses below a specified cost ceiling with regional variations, and

(ii) Purchasers who could provide a specified minimum percentage of the cost of the house from their own resources (i.e. their mortgage plus savings).

d) It can be applied to the sale of council houses to sitting tenants (see below).

e) It would be of value to the building industry by giving substantially improved certainty of sale of houses built below the qualifying cost ceiling fro the Shared Purchase Scheme..

f) The Group strongly prefers the establishment of a Central institution, Finance for Housing, as described above but it would be possible to allow local authorities to take on the financing role if this was wanted.

The Group is very attracted to this scheme, particularly in view of the political mileage already being made by the Labour Party out of its local authority version - the 'half-and-half' scheme and of the interest shown in the Scheme by other bodies such as the National Federation of Housing Associations. The gap between council rents and mortgage repayments must be reduced and we believe that this is a practical way of doing so.

vi) Section 235 Scheme

The Group did consider the American "Section 235" (of the Federal Housing Act 1969) Scheme for helping families with slightly below average earnings to own a home of their own. (See Appendix III). We came to the conclusion that there were too many questions about the practical implications of the scheme for us to answer, including for example its effect on the "poverty trap" and other means tested benefits. In particular it was not clear how the scheme could be reconciled with the existing system of housing finance. We found it difficult to answer all the imponderables but recommend that the scheme be looked at again by the Civil Service if other schemes are not as successful as anticipated.

The Sale of Council Houses

a) The Group firmly believes in a substantial programme of council house sales. There will be no prospect of doing this if rents are kept low. In 1971-2 there was a large number of sales (in 1971 16,851, in 1972 45,058). The announced threat of rent increases under the Housing Finance Act 1972 and the introduction of those rent increases was certainly a major factor in encouraging sales. There is no need for the current figure of 6 million council houses in Great Britain and a large proportion of these should be sold. Mr. Peter Walker was invited by the Group to discuss his scheme for selling council houses. The Group fully recognized that ways would have to be found of ensuring that local council opposition and officially inspired bueaucratic delays were overcome. Mr. Walker's scheme itself involved transferring to tenants of more than 20 years standing the freehold entitlement to their house or flat. The remaining tenants would pay as mortgage payments a sum equivalent to their current rent payments for whatever time was needed to bring them up to the 20 years qualification for owning their council home. The Group fully understood the considerable political advantages among council house voters for the suggested policy. However it was our judgement that the objections from home owners would be very strong and difficult to overcome. We cannot therefore recommend its acceptance.

b) The Present Position. At the present time Circular 54/70 introduced by the last Conservative Government gives a general consent to the sale of council houses provided that the discount is not greater than 20 per cent off the market price, (although special permission can be and in the past has been given for discounts of up to 30 per cent) that the price is at least as high as the historic cost of the house and that the tenant sells back to the council if he sells within five years. The present Government has however banned the sale of houses in New Towns.

c) Conservative Policy. Our proposal at the last Election was to give every council or new town tenant the right to buy his house either on a freehold basis or in the case of flats on a leasehold basis. This could be done by allowing the tenant to serve a notice on the council with access to the courts if the council refused or was obstructive. However there should be some limitations on this in practice. Local authorities must be able to refuse a mortgage if a tenant could not afford one on their normal criteria. The council could also have the right to sell a different property if they wished provided it was of a similar standard to the tenant's existing house. Social service accommodation should be excluded although in practice no elderly family would wish to buy. Local authorities could also be given the right to keep a given minimum percentage of their stock. We make no recommendation on this matter although it is unlikely to pose a practical problem for many years. Finally in the case of flats the local authority would have a duty to make arrangements for the maintenance of the common parts and would be entitled to charge a reasonable sum as service costs. We appreciate that this proposal represents an interference with the freedom of local authorities. However the power is absolutely essential to prevent the right to buy depending on the area in which the tenants live.

d) Price. We suggested in the last Manifesto a price of two-thirds off the market value. We feel that there is a good case for extending discounts by means of a sliding scale to take account of the years of tenancy of the individual tenant. We suggest a discount of one third off the market price after three years of tenancy with a pre-emption clause for 5 years so that the tenant has to sell back to the council within that period. For every year over 3 years, a further one per cent reduction off the maket price would be given up to a maximum of 50 per cent after 19 years. The Group does recognize that a 50 per cent reduction even after 19 years residency will arouse political objections from owner occupiers and this must be taken into account in the formulation of policy. It would be necessary to require local authorities to value the property within say one month of the tenant firmly indicating his wish to buy. The Department of the Environment should produce a standard deed which should be used for all council house sales. Building societies should be encouraged to give mortgages for council tenants wishing to buy their council home since this allows local councils to make an immediate capital profit. Indeed the Building Societies Association in their evidence to the Government's Housing Finance Review said:

"...the Association recognizes that the sale of council houses must form an integral part of housing policy if the wishes of the public are to be transformed into reality." (March 1976).

However it is important that mortgage finance for new housebuilding is not threatened by this policy. Thus it is inevitable that most council house sales will need to be financed by local authority mortgages. At present such mortgages appear to increase local authority borrowing because of present local authority accounting procedures. These should be changed to reflect the fact that a mortgage given for council house purchase is a paper transaction involving a switch from Housing Revenue Account to Home Loans Account. The Group also feels that tenants should be allowed to take advantage of the 'Shared Purchase' scheme if they wish.

Section B

THE CONSTRUCTION INDUSTRY

There are a number of detailed points which the Group wishes to make about the construction industry. The Group attaches strong importance to the avoidance of sharp fluctuations in the level of construction activity. The recent report by the Expenditure Committee strongly urged that any cuts in public expenditure should be concentrated on transfer payments rather than on capital expenditure.

There are five main construction resources all of which need to be in balance; finance (which is substantially influenced by the Government), land, labour, materials and plant. It follows therefore that any effective policy for the construction industry as a whole must begin with a stabilization of output and resources. The attached memorandum by the National Council of Building Materials Producers (Appendix IV) summarises the unsatisfactory effect on their section of the industry of sharp fluctuations in demand but is equally applicable to the industry as a whole. It is not always appreciated how drastic the effects of stop-go can be. The Group attaches maximum importance to the publication of output figures for the construction industry. Material producers and civil engineering contractors are capital intensive and meaningful forecasts are essential for their forward investment. We deal with this matter in more detail later.

Land

Detailed recommendations for land policy are the responsibility of a different group. At this stage, your group simply stresses the urgent policy need to reshape the planning system and the related taxation arrangements so as to ensure a permanent surplus of development land with planning permission, serviced and available for immediate development in areas where people actually want to live. At the present time many planners are not zoning enough land for development. Land policies which are directed towards other aims will undoubtedly be felt in a shortage of land for housebuilding. Indeed the Housebuilders' Federation fear that the effects of the Community Land Act plus the associated Development Land Tax will result in a serious land famine with which a new Conservative Government will have to deal.

Labour

The Group believes that the general policy for labour should be to bring about the conditions in which an orderly supply of labour is available to the construction industry, adequate training of apprentices and re-training of adults is carried out and statutory fiscal obligations are met.

Suggested methods are:-

a) The present Government has set up a manpower board for the construction industry to make recommendations on the de-casualization of labour. This is a long demanded TUC nostrum which totally ignores the realities of the industry, as revealed in the Phelps-Brown Report by which most men leave the site voluntarily towards the end of a job and either sign up at the employer's next site or seek a different contractor to work for. We see no useful purpose in continuing with this body and suggest it be disbanded.

b) Recruitment during the recession has held up reasonably well until recently but the numbers still leave much to be desired and there are now clear signs of a deterioration in the apprentice position. We thought seriously about the enforcement of training schemes by the witholding of public sector contracts from any firm which did not train a given percentage of its work-force. However we felt that this was unlikely to be of much value. What does need to be done is to decide whether the Department of Employment or the Department of the Environment is in charge of encouraging training schemes since at present no-one appears to accept responsibility. It is also essential to have closer liaison between whichever department is in charge and the Construction Industry Training Board to improve training. The grant/levy system may need to be re-examined in conjunction with the Construction Industry Training Board and the question of 100 per cent grants for off-the-job training should be considered further.

c) The present Government's arrangements for tightening up on the certification procedure for sub-contractors should be continued, but the place of labour-only sub-contracting and self-employment in the construction process should be recognized, and trade union attempts to have it banned should be resisted.

d) We discuss below the question of the regulation of output. However we would wish to record that labour constraints on output can have very pronounced effects. It is quite useless to design labour intensive programmes involving specialized training in areas where the skilled labour is not available. These are practical points for which the industry at regional and local level is well placed to advise and should be consulted. Although the existing regional consultative machinery including that of the regional offices of the Department of the Environment should be expanded and made considerably more effective and dynamic.

Materials and Plant

The policy should be to bring about an orderly flow of materials and plant onto site in accordance with market forces. But ecessive fluctuations in demand for building materials which are capital intensive and made on a continuous process cause inefficiency in these industries and result in shortages of capacity at an early stage of economic upswing. The most important single recommendation to achieve this policy is the regulation of demand to avoid wide fluctuations. This is discussed below:

a) Regulation of Output

The Group would wish to stress very strongly that many of the difficulties of the construction industry have flowed from stop go decisions taken by successive Governments. This has a very bad effect on investment and the training and recruitment of building workers. The present Government reacting to pressure from the various sections of the industry have given details beyond those in the White Paper on Public Expenditure of the breakdown of construction programmes by Ministerial Departments until 1980. These are annexed as Appendix 5. Whilst this undoutedly represents an advance, the information is still very general and contains no breakdown on a regional basis or by reference to individual projects. For example it is of little value to know that the local authority house improvement programme is likely to show a decline over the next five years - this being particularly important for the northern region where improvement of council houses has been a major element of workload in the past - unless one also knows what other forms of contracting are available in that area to replace it. The Group therefore believes that five years or if that is not possible three year programmes of public sector construction work should be published by each regional office of the Department of the Environment, they having sought the information from relevant public sector bodies. These should specify actual projects with an estimate of their likely effect on workload locally. The supply of labour is very much affected by the sector workload in the regions concerned. It is immensely important that they be frequently up-dated, and in particular, that any marked or significant departures from them should be immediately notified to the Department of the Environment and thence to the proposed Resources Panel (See Appendix VI).

b) No financial encouragement should be given by Government to any particular form of material or building system. (Brick remains our cheapest, most effective, and versatile indigenous material).

Other Matters Affecting the Construction Industry

a) The present structure of consultation with the industry is very unsatisfactory. Basically the most influential forum is the recently established Construction Industry Liaison Group with the Minister for Housing and Construction as its Chairman which is not sufficiently representative of the complex structure of the construction process to achieve any worthwhile practical results.

The National Consultative Council for the Building and Civil Engineering Industries which has existed since 1944 has a very wide membership and a number of sub-committees of varying value some of which have not met for some years. This body has been criticised for the diffuse nature of its discussions. Finally there is the Joint Advisory Committee consisting of the Treasury, the Bank of England, the Department of the Environment and the Building Societies.

The next Conservative Secretary of State should set up a consultative structure which divides the industry up by sector and workload. A possible new structure is set out in Appendix VI. We particularly see the need for a new Resources Panel to replace the Construction Industry Liaison Group and which would advise the industry of trade matters.

It might seem odd that the Group should spend any time on these detailed points. However it is a matter of fact that grave problems for the industry have been created in the past because of the inadequacy or lack of consultation, and it is vital that this problem be correctly settled.

b) The Cost Yardstick was brought in by the last Labour Government to control the subsidies in the Housing Subsidies Act 1967 which has since been repealed. It was introduced to exercise some control on the open ended housing subsidies. The cost yardstick itself is now being reviewed every quarter. This must take up an enormous amount of bureaucratic time both at central and local levels. Although strictly speaking this is a matter for the Public Housing Policy Group we believe that there is no furth need for the cost yardstick. Loan sanction control is adequate provided that it is supplemented by frequently published information about the movement of building costs. The work done for the Formula method of pricing work for building contracts will be of assistance here.

c) When inflation is at a low level, firm price tendering has distinct advantages particularly for contractors who do not have to measure every price fluctuation at the end of jobs. However at present rates of inflation the contractor tends to increase his tender price to cover himself and this can be inflationary. The Group therefore recommends that the present requirements for firm price tendering and the productivity deduction be reviewed by the next Conservative Government in the light of the condition then obtaining.

d) A much more vigorous attitude needs to be taken towards local authority direct labour departments. There is no need for the departmental working party set up by Mr. Freeson. The aim must be to require all local authorities to implement the recommendations of the Chartered Institute of Public Finance and Accountancy report entitled "Direct Works Undertakings Accounting" so that their accounting procedures allow for fair competition with private building firms. Legislation could be used for the same effect although it would be very controversial. It would also be possible to use administrative means to the same ends.

e) At present there is a Construction Adviser to the Secretary of State who is a frmer builder. The 1966-70 Labour Government had a similar adviser although the last Conservative Government did not. We are doubtful if such appointments achieve all that is required of them or carry much weight in the Ministry. And we attach more importance to the consultative structure which we propose.

f) In recent years there have been a number of reports dealing with tendering and related practices in the construction industry. The most recent have been the Wood Report on "The Public Client and the Construction Industry" and the Banwell Report on "The Placing and Management of Contracts". Both stress that local authorities should avoid inviting too many tenders. The cost of tender can be up to 1 per cent of the tender price and if twelve firms are invited to tender for £100,000 contracts this is a serious waste of resources. It is however very important that smaller and local firms are invited to tender. Particular attention should be given to ensuring that local authorities implement the recommendations of Banwell and Wood.

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PR/ALJ
6th May 1976

APPENDIX I

LONG TERM COMPARISONS OF THE COST OF A NEW COUNCIL HOUSE AND THE COST OF TAX RELIEF ON MORTGAGE INTEREST

The first year gap is very wide, about £1,300 for a new council house and £290 for an average new mortgage. However if rents go up by more than the cost of management and maintenance, the cost of subsidy will gradually reduce. Equally as interest payments on a mortgage decline and capital repayments increase, tax relief will reduce. Of course any subsidy cost today is in 1976 price terms whereas any book profit that a council house makes in the longer term will be in depreciated pounds. It has been argued that on average people move house every 7 or 8 years and take on a larger mortgage attracting more tax relief. On the other hand council tenants often cease to pay rent altogether when they retire as they receive rent rebates and the subsidy cost will therefore go up. It can be seen that longer term comparisons are <u>very</u> complicated. However given the present economic crisis it would be difficult to justify any large scale programme of new council building. The gap between the average costs of council housing and home ownership (£204 and £91 per annum respectively) could certainly justify additional help for home ownership for those who otherwise would become council tenants.

APPENDIX II

THE AUSTRALIAN HOME SAVINGS GRANT SCHEME

The Scheme has just been revised by Senator Greenwood, the new Environment, Housing and Community Development Minister. The maximum grant under the new scheme will be A$2,000 on the basis of A$1 for every A$3 saved over three years. There is no limit on the value of the house, single people will be eligible and there is to be no restriction on age. There is also no time limit on the application for the grant after house purchase. The cost of the scheme will be $15 million in 1976-7 rising to $90 million in 1979-80. However the Fraser Government is offsetting this by cutting back on the existing system of tax relief on mortgage interest by between $40-70 million in 1976-7.

N.B. There are approximately A$1.5 to the £1.

APPENDIX III

From "Housing and Inflation" by Gordon Hughes.

NEW WAYS OF HELPING LOWER INCOME FAMILIES TO BUY

8. Among the alternative schemes for housing finance discussed three stand out as offering substantial advantages when compared with both conventional mortgages and local authority housing.

9. For house purchase the best, though there might be administrative problems, is a loan for which the household makes a net payment of a fixed proportion of its income—the proportion being determined by the ratio of the advance to the household's income. Under this arrangement it would be possible for all but the lowest 15% of households in the household income distribution to buy a house by spending no more than 15% of head of household earnings over 30 years—no more than new borrowers are currently spending. Indeed, if payment were 17½% of income the range of potential house purchasers would include 94 per cent of households, even without special subsidy. This scheme works well at each of the rates of inflation considered, and while it implies a rather larger cost in tax relief than the conventional mortgage, it is still very much less expensive than local authority house. Its advantages derive from the fact that by accepting a constant real burden of mortgage payments the household can greatly reduce the initial fraction of income spent on a mortgage and also borrow a much greater multiple of its income—e.g. for a net payment of 15% of income the household could borrow up to 4·5 times its income.

American Section 235 Plan

10. The two other schemes offer new and advantageous methods of assisting below average income families. One, the American Section 235 proposal, previously discussed by HRF, is a conventional mortgage loan with the additional provision of a subsidy to the borrower to cover the difference between the net payment on the mortgage and a maximum of 20% of income. This also works out cheaper than local authority housing.

Equity Participation

11. The other scheme is essentially a variant on co-ownership and is based on the lending institution providing a loan which is 25% standard mortgage and 75% equity participation in the value of the house on which a low interest rate is charged. It provides a way in which very low income households can take the first step toward house purchase at a low cost to the government. It has disadvantages but offers the most substantial savings in government subsidies when compared with local authority housing. This is true for each of the inflation rates examined.

Strong Case for Adopting These Plans

12. Each of these three schemes mobilises the willingness of households to spend more on house purchase than rental. The administrative difficulties can be overcome.

13. There is therefore a strong case for adopting each of these schemes in order to improve on existing arrangements for housing finance and to widen the range of options available to borrowers, lenders, and the government. Careful planning would ensure that higher demand did not force up house prices. No one would be compelled to buy. More would have a choice between buying and renting.

APPENDIX IV

'Stop-Go' in Construction

Effects on Building Material Producers

Memorandum by the National Council of Building Material Producers

Background

1. Products used in Building and Construction normally contribute some 4 to 5% of GNP and over 20% of GFCF. Turnover in 1974 was some £4,000 million.

2. The industries involved are generally capital-intensive with long lead-times (often 2 - 3 years or even more) in bringing in new capacity.

Cyclical Demand

3. Leads to :-

(I) Lower general level of investment, especially if prices are controlled during peaks.

(II) Greater reliance on less efficient plants for peak loads, using the more efficient, initially more costly, but less flexible large scale plants to meet the 'base load'.

(III) Greater hesitation to innovate.

(IV) More difficulty in raising capital, compared with more stable and steadily growing industries.

Downturn

4. Results in :-

(I) Outflow of management and operatives, and unemployment.

(II) Less efficient use of manpower, coupled with reduced earnings for operatives due to reduced shifts, short weeks and short time.

(III) Relative inefficiency of plant operation.

(IV) Difficulties in achieving balanced outputs.

(V) Excess capacity.

(VI) Closures, often permanent.

(VII) Cancellation or postponement of new investment.

(VIII) Excess stocks, with excess capital locked up and increased consequential costs and losses in double handling, recovery, wastage etc.

(IX) Reduced cash flow.

(X) Upward pressures on unit costs and therefore prices, feeding inflation.

Upturn

5. Leads to :-

(i) Shortages of trained management and operatives.

(ii) Inability to meet 'demand' fully and quickly enough, giving rise to shortages which can generally only partially be met by imports.

(iii) Nonetheless, increased imports, particularly of certain classes of product, with detriment to the balance of trade, and sometimes resulting in increased construction costs, difficulties of application (also increasing costs) and lowering of quality.

(IV) Carrying over of such imports into the next downstream to the detriment of home producers; and in extreme cases to more permanent loss of home capacity with further and longer-term detriment to the balance of payments.

General

6. In the very sharp downturn at present, underutilisation of capacity has been exacerbated by new investments made during the previous upturn of 71/72/73 (particularly to meet the quite exceptional increased demand which developed for certain classes of product) some of which was only completed well into the present downturn.

7. Generally, however, the product supplying industries are heavily influenced by past experience to anticipate the next downturn in making investment decisions and determining their level.

8. Because of the time-lags inherent in the construction ~~prices~~ process, construction output responds more slowly and gradually over time to changes in the volume of construction orders (and perhaps even more so in an upturn than a downturn). Producers cannot, however, but be greatly influenced and deeply concerned by the dramatic downturn in construction orders which, from the 1972 level, dropped 4% in 1973, slumped a further 25% in 1974 and a further 8% to April 1975. Unless this already prolonged trend is quickly reversed, construction output must inevitably follow a similar if somewhat smoother pattern.

sheet following is poor quality original

APPENDIX V Public Sector Work Programme to 1980

TABLE A
PUBLIC EXPENDITURE TO 1979-80 (Cmnd 6393)
CONSTRUCTION WORK (GREAT BRITAIN)

(Figures for each financial year covered by White Paper given separately)

£million at 1975 survey prices.

PROGRAMME OR SUB-PROGRAMME	PROG TABLE	1970/1	1971/2	1972/3	1973/4	1974/5	1975/6	1976/7	1977/8	1978/9	1979/80
Housing											
1. Local authority and New Towns[2]	2.7	1,260	1,340	1,091	1,021	1,137	1,254	1,283	1,249	1,265	[illegible]
2. Local authority improvements 3	2.7	111	210	361	506	472	389	374	272	[illegible]	257
3. Grants for private sector improvement 4	2.7	50	81	143	192	139	86	132	122	131	[illegible]
4. Housing Association 5	2.7	74	93	124	153	217	320	452	455	449	[illegible]
5. Housing from other spending programmes	2.7	176	275	416	594	497	438	422	315	293	293
Other construction (New buildings and works)											
6. Trade, Industry and Employment	2.4	30	30	34	24	30	71	75	79	[illegible]	[illegible]
7. Nationalised Industries[6] of which:	2.5	651	591	574	531	692	[illegible]	1,022	[illegible]	[illegible]	[illegible]
Electricity		135	129	140	111	127	103	172	[illegible]	[illegible]	[illegible]
Gas		135	105	66	70	130	150	112	54	107	100
Steel		57	23	48	45	59	73	64	92	100	101
Telecommunications		62	63	61	70	78	83	101	103	39	57
Posts		29	24	18	15	14	20	28	28	[illegible]	22
Railways		122	141	167	171	130	154	163	154	155	173
Co[illegible] 7		15	10	9	10	23	32	30	40	40	40
British National Oil Corporation		-	-	-	-	-	65	250	-	-	-
8. Roads and Transport of which:	2.6	815	736	770	802	743	770	749	690	[illegible]	[illegible]
Motorways and Trunk Roads		422	346	376	355	346	328	333	337	327	317
LA Roads		297	305	335	351	292	295	268	246	225	216
Public Transport		21	14	49	38	46	45	50	41	36	27
Ports[6] (including British Transport Docks Board)		-58	47	38	33	33	52	50	50	45	35
Civil Aviation[6] (including British Airways Board and British Airways Authority)		46	39	38	37	39	54	50	49	51	55
9. Other Environmental Services of which:	2.3	795	857	966	1,037	898	914	832	838	[illegible]	[illegible]
Regional Water Authorities		452	504	524	564	442	535	479	476	475	475
Other Water and Sewerage		52	51	51	52	47	54	47	47	45	42
Land Drainage and Flood Protection		24	27	33	40	35	66	54	95	65	52
10. Law, Order and Protective Services	2.8	78	91	90	86	73	101	107	102	63	51
11. Education, etc of which:	2.10	476	536	597	575	435	375	265	283	271	205
Schools		355	407	477	453	335	309	209	209	202	145
Higher and Further Education		84	88	75	74	56	28	40	39	30	31
12. Health and Personal Social Services of which:	2.11	346	398	473	475	385	404	331	297	[illegible]	[illegible]
Hospitals and Community Services		285	314	379	355	286	305	264	243	[illegible]	[illegible]
Local Authorities Personal Social Services		55	68	86	113	94	93	46	42	41	41
13. Miscellaneous of which:	2.14	91	106	108	103	87	112	96	94	55	[illegible]
Office and General Accommodation Services		52	57	53	47	39	62	54	51	52	55
TOTAL		5,383	5,314	5,730	6,059	5,773	6,155	6,125	5,559	5,341	5,273
TOTAL PUBLIC EXPENDITURE (ALL PROGRAMMES)	1.4	36,223	37,091	39,011	41,067	44,497	46,372	45,835	44,901	44,392	44,672

1. Architects and Surveyors fees are included.
2. See paragraph 7 on page 70 of Cmnd 6393
3. See paragraph 5 on page 69 of Cmnd 6393; the additional provision announced on 12 February 1976 is not included.
4. Grants normally amount to 50% of the total cost of eligible work.
5. Includes expenditure on acquisition of land and existing dwellings.
6. Expenditure for British Transport Docks Board, British Airways Board, and British Airways Authority is included in the Nationalised Industries Total.
7. Expenditure in later years will be a charge on the contingency reserve.

APPENDIX VI

List of Abbreviations

ACC	–	Association of County Councils
ADC	–	Association of District Councils
AMA	–	Association of Metropolitan Authorities
BPF	–	British Property Federation
BSA	–	Building Societies Association
CPA	–	Contractors Plant Association
FASS	–	Federation of Associations of Specialists and Sub-Contractors.
FCEC	–	Federation of Civil Engineering Contractors
FMB	–	Federation of Master Builders
GLC	–	Greater London Council
GMWU	–	General and Municipal Workers Union
HBF	–	House-Builders Federation
ICE	–	Institute of Civil Engineering
NCBMP	–	National Council of Building Materials Producers
FNBPM	–	National Federation of Builders and Plumbers Merchants
NFBTE	–	National Federation of Building Trades Employers
NHBC	–	National House-Building Council
PSA	–	Property Services Agency (Department of the Environment)
RIBA	–	Royal Institute of British Architects
UCATT	–	Union of Construction and Allied Trades and Technicians

Proposed Permanent Consultative Structure

Secretary of State

Resources Panel
Minister (H and C)

1 CPA
1 FASS
1 FMB
1 GMWU
1 NCBMP
1 NFBTE
1 TGWU
1 UCATT

Private Housing Finance Panel
Under-Secretary (H and C)

1 Bank of England
2 BSA
1 Clearing Banks
1 Estate Agent
1 HBF
1 Insurance Company
1 NHBC
1 Treasury

Public Sector Housing Panel
Under-Secretary (H and C)

1 AMA
1 FASS
1 FMB
1 GLC
1 NCBMP
1 NFBTE
1 RIBA
1 Quantity Surveyor

(Non-Housing Panel
Under-Sec (H and C)

1 AMA
1 [illegible]
1 FASS
1 FCEC
1 ICE
1 NCBMP
1 NFBTE
1 Quantity Surveyor(RICS)
1 RIBA
(Public Utilities to be invited as necessary)

Private Housing Land Panel
Under-Sec (Development)

1 ACC
1 ADC
1 AMA
1 BPF
1 Estate Agent
2 HBF
1 NHBC
1 Standing Conference

Duties of Panels

Resources	Private Housing Finance	Public Sector Housing	Non-Housing	Land
To keep under constant review the resources - labour, plant and materials - needed for the construction programme. To liaise with the C.I.L.B./Manpower Board.	To review the availability of mortgage finance. To meet monthly.	To examine all blockages in the Council housing programme, including reports from the Regional Offices of the DOE. To meet monthly.	To examine all problems relating to the non-housing construction field. To meet monthly.	To deal with the blockages in the land release programme, as reported by a Departmental 'Progess-Chaser. To meet monthly.