

HIGHLY CONFIDENTIALPUBLIC HOUSING SECTOR POLICY GROUPOBJECTIVES

To assess how to re-orientate public sector housing policy to ensure:

- i) A substantial reduction in public expenditure, whilst ensuring those unable to provide for themselves are looked after.
- ii) Impetus is given to growth of owner occupation.

POLICY PROPOSALS:Overall:

- i) The Group recognises that public sector expenditure on housing is too high, the benefit is indiscriminate and the return to the public is inadequate in terms of new and improved homes. This means substantial savings can be made without affecting the provision for those in real need.
- ii) The Group has attempted to assess whether this country's investment in housing is above or below average amongst our European partners. The latest figures available are for 1974. (See Appendix II). If one accepts that public sector expenditure is too high, private sector provision in this country is far too low.
- iii) The implications of trying to achieve 80 per cent home ownership at any time in the 1980's mean that it is almost certainly unattainable. The Group's analysis would suggest that 70 per cent owner occupation by the mid 80's would require sales of council houses in excess of 1M every year for the next ten years. (See Appendix III).

NEW COUNCIL BUILDING:

- i) Central Government should concentrate its financial help on the areas of serious housing stress which will in the main be the Metropolitan Counties. Particular emphasis should be given to provision for the elderly which relieves under-occupation - although there will in some areas be a continuing need for new council housing for families. The Group believes that the best way of doing this is by operating discreetly through the subsidy system and by loan sanction control.
- ii) Serious consideration should be given to abolishing all the complicated cost yardstick provisions and introducing instead a much simpler system of cost control. At this stage it is accepted that individual authority sector loan sanctions (i.e. new building, renovation, municipalisation etc.) will have to remain although in the medium term it is hoped that Central Government could just allocate to a local authority a total housing figure.

- iii) The Parker Morris standards for new council and housing association homes should be reviewed.
- iv) There is an unmet need to establish some meaningful way of assessing housing need. This should be a priority for any new Conservative Government.
- v) The overall level of Government subsidy should be reduced. In general new legislation will not be needed for this purpose.
- vi) Councils should be encouraged to enter into negotiated deals with housebuilders, to buy where appropriate off the peg housing schemes. The Group is firmly convinced that a considerable saving could be made as Sefton District Council has shown.
- vii) All New Town Developments should be on the basis of 75 per cent owner occupied and 25 per cent rented.

#### SALE OF PUBLIC HOUSING:

- i) The tenants should have the statutory right to buy their house or flats after 3 years' occupancy. The price should be the market price. The tenant should receive a discount of 30 per cent on the market price less 1 per cent for each year's residency up to a maximum of 50 per cent for 20 years. There would continue to be a pre-emption buy back clause for 5 years and a caveat of no sale below cost might also be necessary. This scheme would not exclude other techniques of sale like shared purchase etc. covered in greater detail in the home ownership paper.
- ii) A model set of deeds should be published by Central Government and provision should be made for a standard method of fixing the sale price. Consideration will have to be given to what other actions are necessary to overcome obstructive councils.
- iii) Houses should be sold freehold and flats on a long leasehold.
- iv) Local authorities should be empowered to underwrite the mortgages of purchasing tenants when they seek a building society or insurance company mortgage.
- v) Local authorities should encourage tenants to seek building society or insurance company mortgages. Financially this will be of benefit to the public authorities as the capital debt will be paid off and the subsidies ended. The provision of owner occupied mortgage relief will necessitate some extra public expenditure but the net financial effect will be favourable.
- vi) Local authorities should be given a restricted mortgage budget for special cases. Even in these cases although the capital debt is not repaid there should be a marginal financial benefit.
- vii) Care will have to be taken in promoting a high level of council house sales that builders do not lose faith in the building societies ability to finance what should be an increased level of private sector building.

- viii) Cas will have to be taken to communicate that a right to buy does not guarantee a right to a mortgage, although councils should be obliged to offer mortgages on their normal lending criteria.

#### EXISTING PUBLIC SECTOR HOUSING:

- 1) The Conservative Party needs to attempt to negate the existing close affinity of the Labour Party with council tenants. We believe encouragement should be given to tenants' co-operatives and a model tenants' charter defining the responsibility of local authorities to their tenants should be considered.
- 11) Tenants should be encouraged to look after their own dwellings by making all internal decorations and minor repairs the responsibility of the tenant except in the case of the elderly and handicapped. Currently £400M+ is spent by local authorities on maintenance and repairs.

#### COUNCIL RENTS

The Group recognises the political problems that hit the Housing Finance Act 1972. The recommendation is, therefore, that Central Government should only give guidance on rents. Pressure for realistic rents can be achieved by cutting exchequer subsidies. In some cases Labour Councils might react by increasing rate fund contributions and this might necessitate imposing a legal maximum percentage contribution from the rate fund although this would depend on our future plans for local government finance (legislation needed). As Councils at present have a statutory duty to balance the housing revenue Account they would then have no option but to increase rents.

An alternative would be to legislate for no rate fund contribution in return for all rent rebates becoming a Central Government charge. However concern has been expressed that a removal of the 25 per cent local authority contribution will lose local authority involvement and responsibility. In the longer term we would recommend that the Party have another look at finding a less pragmatic solution to fixing rent levels.

#### HOUSING ASSOCIATIONS:

Despite the proposal for a substantial cutback in public sector housing the Group believe the White Paper targets for Housing Associations should be kept, i.e. the provision for 45-50,000 new or improved houses per annum.

However, as this is a substantial increase on the recent past, the following changes should be considered.

- i) The bulk of housing should be restricted to the housing stress areas.
- 11) The method of financing should be reviewed. At the moment the exchequer does not receive any benefit from rent increases, because housing associations are financed by capital grants.
- 111) Tenants should be given the right or option to buy (legislation needed).

The Group recognises that Housing Association Accommodation is theoretically no cheaper to the Exchequer but practically it is quicker, more flexible and ideally suited to the carrying out of conversion or improvement of older property in the inner urban areas.

#### FINANCIAL:

The Group believes that substantial savings are achievable in the order of £1,100M in Year 1 rising to about £2,000M after 3 years (at 1976/77 prices). These savings would come from reduced capital expenditure, increased rents and sales of council houses. (Detailed calculations see Appendix 1).

The Group would strongly resist cuts in improvement grants, housing associations and local authority lending.

#### LEGISLATION:

On the proposals submitted legislation would be required for the following:

- i) A Statutory maximum rate fund contribution might be necessary.
- ii) A statutory right for sitting tenants to buy local authority and new town dwellings and a permissive power to sell Housing Association dwellings.

#### POLITICAL IMPLICATIONS:

It should be clearly understood that the substantial cutback in public housing proposed will cause an outcry. Concern may well be expressed by the construction industry. The Group believes criticism can be met, if there is a sustained increase in private sector housing and if the Secretary of State for the Environment's other programmes are left untouched e.g. Housing Associations, Improvement Grants, Action areas etc.

#### MEMBERS OF THE POLICY GROUP

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Financial ImplicationsSavings

£M

1. Substantial reduction in building for general need and restrictions geographically to areas of housing stress. A reduction to 50,000 - 70,000 units is envisaged over a 3 year period at a saving of £750M - £1000M on capital account in 1976/77 prices and thereafter.
- Year 1 £200 - £400  
Year 2 £400 - £600  
Year 3 £750 - £1000
2. Sale of Council Houses at £7,000 each (£10,000 discounted).
- |                                   |      |           |
|-----------------------------------|------|-----------|
| At 50,000 level above White Paper | 350  |           |
| At 75,000 " " " "                 | 525  |           |
| At 100,000 " " " "                | 700  |           |
| At 150,000 " " " "                | 1050 | per annum |
| At 200,000 " " " "                | 1400 |           |
| At 250,000* " " " "               | 1750 |           |
- (\* Target)
3. Rent increases over and above Gov. 60p. which equals 43% of cost of subsidy. Figures discounted by 20% to allow for increased rent rebates.
- |   |         |      |
|---|---------|------|
| 40p extra i.e. £1 across 6.3M dwellings | (£252M) | £202 |
| 90p " " £1.50 " " "                     | (£567M) | £454 |
| £1.40 " " £2 " " "                      | (£882M) | £706 |

Summary of Savings

	<u>Year 1</u>	<u>Year 2</u>	<u>Year 3</u>
	£M		
1. Reduction in building programme	300	400	750
2. Sale of Council Houses	350	525	700
3. Increased Rents	454	454	454
	<hr/>	<hr/>	<hr/>
	£1,104	£1,379	£1,904

APPENDIX II

<u>TOTAL NO. DWELLINGS COMPLETED (1974)</u>	<u>NUMBER PER 1000 INHABITANTS</u>	
Netherlands	146,174	10.8
F.R. Germany	604,400	9.7
Denmark	48,595	9.6
France	500,500	9.5
Luxembourg	3,395	9.5
Ireland	25,420	8.2
Belgium	66,345	6.8
United Kingdom	278,000	5.0
Italy	165,522	3.0
Community total =	1,838,351	7.1

Source:

From Report on Development of Social Situation in the  
Communities - 1975.

APPENDIX III

Council House Sales required over 10 years to bring the proportion of owner occupation up to various levels - Great Britain.

Using the annual increase in the housing stock over the last 6 years

Annual Average change in stock end 1968 -end 1974  
(thousands)

	<u>Council housing</u>	<u>Owner Occup.ed</u>	<u>Private rented and other</u>	<u>Total</u>
	111.3	235.2	-114.7	231.8
End '74 stock (000's)	6,055	10,309	3,261	19,625
Stock after 10 years in absence of extra sales (000's)	7,168	12,661	2,114	21,943

Assu ing council houses are sold over the 10 year period to give by the end of the period: A) 60%, B) 65%, C) 70% and D) 75% owner occupation, the structure after 10 years would be as follows:

(thousands)

Case A	6663 (30.4%)	13,166 (60%)	2114 (9.8%)	21,943 (100%)
Case B	5566 (25.4%)	14,263 (65%)	2114 "	21,943 "
Case C	4469 (20.4%)	15,360 (70%)	2114 "	21,943 "
Case D	3370 (15.4%)	16,459 (75%)	2114 "	21,943 "

The number of council houses to be sold (in addition to the average rate of sales experienced over the previous 6 years) is the difference between the final stock in the absence of the extra sales (7,168,000) and the final stock after sales in the 4 cases.

Required council house sales (000's)

	<u>Over 10 years</u>	<u>Over each year</u>
Case A	505	50.5
Case B	1,602	160.2
Case C	2,699	269.9
Case D	3,798	379.8

Note: The average annual change in the stock of each type of tenure incorporates the average annual number of council house sales over the 6 year period. Therefore the required sales shown above relate to extra sales rather than total sales.