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Sale of C.H. campaign

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THE SALE OF COUNCIL HOUSES  
(A Paper by Michael Heseltine)

Life. Seniority  
5th Div. Division

The Problem

If the next Conservative Government is not able to raise the rate of council house sales well above anything achieved in the past decade we will make little progress towards our objective of expanding home ownership.

During the last period of Conservative Government 97,000 council houses were sold, but council building continued at such a rate that by the end of our period in government the number of families living in council owned houses had actually increased by about 150,000. The increase in owner-occupation was achieved by a movement away from the private rented sector.

Under Labour sales have dropped to a trickle and although they are rising again as a result of Conservative success in local elections the increase has been less than might have been expected.

	<u>Council House sales</u>	<u>Total council house starts</u>
1970	6,816	125,479
1971	17,214	114,519
1972	45,878	103,163
1973	34,334	95,507
1974	4,657	123,873
1975	2,723	154,077
1976	5,793	156,179
1977	12,607	122,273

(Figures for England and Wales)

The Case for Sales

(a) The Political and Social Argument

Expansion of home ownership is one of the most important things we can do to spread wealth and ownership, and therefore independence from the State, among our citizens.

(b) The Economic Argument

Subsidies to council houses are currently costing the Exchequer and the rates some £2,000 m. a year. In spite of this, the long-term council tenant makes no real gain. Setting the cumulative expenditure by local authorities on maintenance and on loan charges for the average council house against cumulative rent for the same house over the periods since construction produces the following figures:

<u>When Constructed</u>	<u>Cumulative Profit/Loss</u>
1938	+ £375
1950	- £1,125
1960	- £1,500
1970	- £2,500

The tenant in an older house has in some cases paid out more in rent than the cost of the house to the local authority. His rent is helping to subsidise expensive new houses, and neither he nor his children have any capital asset at the end. For such tenants there is a strong financial case for purchasing council houses. For the taxpayer and ratepayer there is a strong case for selling in that the interest on the sales price is higher than the surplus arising from the house in all but a small number of cases.

(c) The Democratic Argument

Research carried out on behalf of the DOE suggests that 87 per cent of young couples under 30 preferred home ownership to any other kind of tenure, but that only 49 per cent considered it was open to them in their current circumstances to become home owners. By increasing the availability of home ownership we are meeting an overwhelming public demand.

The Scheme

How then are we to sell more council houses?

One possibility is to impose a major rent increase on council tenants. But, although the proportion of current housing costs met by rents is now (at 41 per cent) clearly too low as the Labour Government itself recognises, any such sudden increase would cause much political difficulty. In any case, when rebated rents met 65 per cent of costs in 1973 sales did not increase over the previous year.

The other option, and the one on which I would place most reliance, is to seek to make the terms of sale reflect more realistically the value of the property to council and tenant, and to provide an incentive for local authorities to sell. We can do this in various ways:

(i) More Realistic Valuation

We must ensure that District Valuers no longer fix artificially high values on council houses. Valuation should reflect the fact that the house is a council property on a council estate. There should be an appeals procedure against the valuation of the District Valuer and we are considering whether appeal should be to the Secretary of State, to the Lands Tribunal, or Local Appeal Panels.

(ii) Discounts

A discount on this valuation should reflect the fact that council tenants buy as sitting tenants. This argument is reinforced by the recent Government announcement that tenants of local authorities are to have security of tenure. I propose a sliding scale of between 30 per cent and 50 per cent for tenants of 3 years to 20 years standing.

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(111) Availability of Mortgages

We should ensure that 100 per cent mortgages from Local Authorities or Building Societies are available, subject to the usual conditions, to all those wishing to purchase council houses. Such a loan by a local authority must not be treated by the Treasury as an increase in the PSBR as it is in effect a book transaction which involves no real increase to the local authority debt.

We should consult with the Building Societies to see under what conditions they would agree to provide 100 per cent mortgages for council house buyers, so that more private sector money can be brought into the transaction. But this would not be a public commitment by the party at this stage. We can further explore the possibility of refinancing parcels of local authority mortgages to the private sector.

(1iv) Legal Fees

We should seek to reach agreement with the legal profession to charge an agreed flat rate fee for the legal costs. This is currently the practice in Leeds where the recommended fee is £25 and £50 is paid to the council for its expenses.

(v) Housing Revenue Account

The degree of enthusiasm with which a local authority promotes sales is an important factor in determining the level of sales. The Housing Rents and Subsidies Act 1975 makes sales less attractive for many local authorities. A successful sales campaign could place Housing Revenue Accounts in surplus and the Act restricts the ability of an authority to carry forward such a surplus, or to transfer it to the General Rate Fund. The Act should be amended to allow such transfers and thus give authorities more incentive to sell.

Consideration has also to be given to the capital receipts from sales. In the first place the money should be used to pay off the outstanding loan debt of the property in question. Capital should then be shared between the Treasury and the local authority in such proportions as to leave the local authority with a substantial incentive to sell. The Treasury will ultimately gain since it will be able to take both capital and revenue gains by Local Authorities into account as part of the RSG calculation because they will affect both the needs and the resources element.

The financial gains from sales will of course vary from one authority to another, but Nottingham Council provides an encouraging example. Sales of 3,000 houses in 18 months have raised capital of £22.7 m. This represents a profit of almost £8 m. on the original cost of providing the houses sold. It has made possible the reduction of the non-mandatory rate fund contribution to the Housing Revenue Account from £1.2 m. in 1975/6 to nil in 1976/7.

Loan  
60 years

Geoffrey.

Sally ✓  
Peter ✓  
Teddy ✓  
Francis ✓  
Willie ✓  
Mike ✓

Tom ✓  
Teddy ✓  
Avery

### Safeguards

In some areas it is already the case that a very low proportion of the housing stock is council owned, and any further reduction would leave the authority concerned short of housing for those who can not help themselves. We should consider prescribing a level of public sector housing (up to a ceiling of 10 per cent) below which the automatic right to purchase does not apply. ~~We should also give to local authorities the right to apply to the Secretary of State for a Restrictive Covenant that the house being bought is the only residence of the purchaser.~~ This will help safeguard against buyers of second homes in holiday areas where there is a high demand for property.

The extent of the pre-emption rights which a local authority should be allowed to retain must be considered against the background of our desire to increase mobility through owner-occupation. If we are restricting our discounts to tenants of 3 or more years standing I do not think it necessary to go too far in providing for pre-emption. However colleagues may wish to consider whether there should be a right of pre-emption on a sliding scale i.e. if the tenant sells in less than a year he loses all the discount; after one year he forfeits 80 per cent of the discount; after two years 60 per cent, and so on, thus providing rights of pre-emption for up to 5 years.

### Proposals

I therefore propose that we should:

1. Establish a more realistic basis for valuation taking into account that the property is a council house on a council estate with a sitting tenant, and provide for an appeals system.
2. Allow a discount on that valuation on a sliding scale between 30 per cent and 50 per cent for tenants of from three to twenty years standing.
3. Ensure the availability of 100 per cent mortgages from either the public or private sectors for purchasers of council houses.
4. Seek to keep conveyancing costs to a minimum.
5. Amend the Housing Rents and Subsidies Act to provide an incentive for local authorities to promote sale vigorously.
6. Consider prescribing a level of council housing in certain areas below which the right to buy does not apply.
7. These proposals should apply to all local authority and new town dwellings.