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Qa 04111

To: MR STOWE

From SIR KENNETH BERRILL

The Prime Minister's talk with Mr Heseltine

1. I understand that the Prime Minister is seeing Mr Heseltine tomorrow to talk about the main issues in the housing area. It was suggested that the CPRS might put a note in tonight for her to read similar to the brief which we put in before she went to talk to Mr Howell at the Department of Energy.

2. I attach a paper along these lines. In the time available we have not been able to do much more than to raise, what seemed to us, some of the more important questions, but I hope the paper will be of some value.

3. I am sending a copy of this minute and the attachment to Sir John Hunt.

KB.

22 May 1979

Att

Housing

The Government's approach to housing is governed by two main considerations:-

- (1) It is a major feature of the Manifesto that wider home ownership should be encouraged;
 - (2) Public expenditure on housing has been singled out by the Government when in opposition to produce proportionately greater savings than any other programme.
2. Against this background we suggest that the following are among the questions which the Prime Minister may wish to raise in her discussion with Mr Heseltine tomorrow.

General

- (i) What is the present state of housing supply and demand? There is already a crude housing surplus despite the fact that demand is being artificially stimulated by uneconomic pricing. Some housing is undoubtedly unsatisfactory, and there may well be shortages in particular areas of need. Is policy focussed on these problems?
- (ii) Does the Department agree that it is generally more cost-effective both in the public and the private sectors to encourage renovation and improvement of existing houses than to encourage new building?
- (iii) Are there large public expenditure savings to be had from cutting back on house construction in the public sector? Will the consequences be tolerable for the construction industry? Will private house construction fill the gap?

Subsidies

- (i) A reduction in subsidies to public sector housing (currently amounting to some £1,600m) must make a major contribution to the Government's plans to reduce public expenditure. How much can be saved by increasing local authority rents in the current year?
- (ii) What contribution can be made by council house sales? Now that the Secretary of State has seen the books, does he consider that a maximum rate of discount of 50% is too high? Might this not involve unnecessarily foregoing large capital receipts?

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- (iii) The present system of subsidising housing is capricious and wasteful. Should the Government aim at the gradual elimination of housing subsidies with a view to releasing substantial resources for reductions in personal taxation? The balance between the public sector (subsidised rents) and the private sector (tax relief for mortgages) would need to take account of the Government's policies for encouraging more home ownership.
- (iv) What steps can realistically be taken to reduce the subsidies which private landlords provide for their tenants? A shorthold scheme by itself will not achieve this objective. Can we assume the policy of phasing out the controlled rented sector?

Home Ownership

- (i) What contribution will the sale of council houses make to the increase in home ownership over the next 5 years?
- (ii) What steps does the Department envisage to facilitate the provision of funds for housing? For example, is the retention of the Building Societies' cartel compatible with our housing objectives, and our emphasis on the need for more competition?

[NB. Building Society finance is primarily the responsibility of the Chancellor, although Mr Heseltine is concerned with the housing implications.]

Private Rented Sector

What is the Secretary of State's timetable for bringing forward legislation on shorthold? Does he have a particular scheme in mind? ~~What steps is he taking~~ to prevent landlords refusing to make any new lettings until the new scheme is introduced?

[NB. At the moment there are some 300,000 new lettings a year, including single rooms. There is a danger that landlords will not agree on new lettings until the Government's precise intentions on shorthold have been clarified.]