

HOUSING POLICY

(A paper by Timothy Raison)

A. The Strategy.

We propose that our broad housing strategy should be as follows:-

1. To maximise choice and the provision of housing appropriate to people's needs, desires and resources, with particular emphasis on the opportunity of owner-occupation.

2. To effect a significant reduction in public expenditure on housing - notably by the more effective use of existing stock in both public and private sectors, and by the encouragement of private sector provision, in rented as well as owner-occupied housing.

3. To effect significant policy changes in such a way as to stress the positive attractions of our approach and to minimise the opportunities for opposition to them - in particular to try to achieve the necessary public expenditure reductions with a minimum of legislation, and in the meanwhile to carry out a sustained campaign of explanation for the basis of our policies.

4. To continue to operate public sector housing through local government rather than a national housing system (though keeping this open as a possible option for later consideration), but to ensure that by a mixture of direct and indirect restraints, local authority spending on housing is kept under control.

5. To recognize that there are considerable local variations in housing provision, and to allow for these in our legislation and policy.

B. Specific Proposals.

1. Owner Occupation: (See Appendix A)

- Michael Laker*
- (a) Recognise that paramount need is a steady flow of money through the building societies and a steady supply of land, and a stable construction industry (used as little as possible as an economic regulator).
- (b) The exact extent of additional support that should be given to first-time owner-occupiers must depend on the economy, but our preferred forms of additional help are the grant towards the deposit of first-time purchasers at lower levels, and financial support for shared purchase schemes - which would anyway be encouraged.
- Money  
input.*

- (c) Council and new town tenants should have the right to buy the freehold of their houses after three years as tenants. (Probably leasehold in the case of flats). Some properties - notably for handicapped and old, or possibly where local authorities have small pools of council houses - to be exempted. Normal conditions: 30% discount on market value, plus 1% per year up to a 50% maximum after 20 years; local authority right to pre-emption for five years; sale prices not to be below cost of house. Simplified conveyancing analogous to leasehold reform procedures.

11. Private Rented Sector (See Appendix B)

- (a) Halt the decline in the private rented sector with the initial aim of making better use of existing stock and reducing the need for more public building. The longer-term possibility of attracting new investment must depend on the success of the short-term policy and on the creation of a climate in which private renting is once more seen as sensible and acceptable.

- (b) Accept that security of tenure cannot generally be abolished and accept the end of the distinction between furnished and unfurnished tenancies but make changes to system as follows:

introduce regional de-control under existing powers of Section 100 of 1968 Rent Act;

introduce shorthold system for fixed term lettings which do not confer security;

exempt students from security at end of their course;

exempt flats over shops from security;

improve the right of re-possession for owners.

- (c) Review court procedures in the field of landlord-tenant relations with the possibility of amalgamating the overlapping jurisdictions of County Court, Magistrates, Rent Tribunals and Rent Officers.
- (d) Possibility of better improvement grants for landlords provided they keep property in rented sector.
- (e) Re-introduce de-control of old control properties and their movement to fair rents.
- (f) Speed up payment of rent increases under Fair Rent system; review triennial period of review; make consideration of fair return for landlord mandatory.
- (g) Consider with Treasury colleagues possibility of discontinuing capital gains tax on resident landlords who sell their property; possible partial exemption from Schedule D tax on rental income; and possibility of extending tax depreciation to residential property.

(h) Consider removing the anomaly of "Fair Rent" (non resident landlord) and "reasonable rent" (resident landlord) and substituting rent based on reasonable return on capital value.

(e) Make rents registrable prior to actual letting to avoid tenants renegeing on their bargain.

(f) ~~Strengthen provisions relating to service charges to protect tenants of mansion blocks.~~

iii. Public Sector. (See Appendix C). *Parker Morris.*

✓ (a) Accept that council building must be firmly limited and a significant reduction in public expenditure achieved.

✓ (b) Concentrate public sector provision on stress areas, on particular categories such as old and disabled particularly through provision of sheltered and smaller dwellings, which would release larger dwellings for families, and (to a limited extent) on areas of population growth.

(c) Accept that substantial rent increases are necessary, both to reduce public spending and to encourage home ownership - exact extent of rent increases to be a matter of judgement in specific circumstances.

(d) Rent increases to be achieved by reducing level of Central Government grant throwing greater financial responsibility upon the local authorities rather than re-introduction of Housing Finance Act 1972. Rate-payers to be protected from excessive burdens possibly by legislation to restrict rate fund contributions (or its successor).

✓ (e) Parker Morris and cost control system to be reviewed. Longer-term possibility of single grant to local authorities for public sector housing also to be considered, but loan sanction control is essential at present.

✓ (f) Improve definition and assessment of housing need, including regional situation.

✓ (g) Encourage local authorities to buy off-the-peg housing schemes for housebuilders.

✓ (h) Reverse present imbalance between private and public sectors in New Towns.

✓ (i) Put forward tenants' charter.

✓ (j) Maintain housing association programme so far as economic circumstances allow it.

(k) Promote sale of council and new town houses as above; and also encourage sale of housing association dwellings, though not with statutory right to buy.

C. Financial Implications (See Appendix D).

Appendix D discusses areas where cuts might be made: it includes an extract from the Public Expenditure White Paper.

If we take the 1976-7 column of figures in Table 2.7 of the White Paper we might think in terms of the following very approximate indication of savings and increases in expenditure (a) immediately and (b) after three years.

PUBLIC EXPENDITURE ON HOUSING:  
SOME HYPOTHETICAL CHANGES.

HOUSING £ million at 1975 Survey Prices

	1976-7	1977-8	1979-80
Subsidies	1413.3	1153.3	633.3
Option Mortgage Scheme	113.8	141.0	174.5
Grants to Housing Associations	389.5	389.5	389.5
<u>Improvements</u>			
Improvement Grants	122.3	132.3	172.3
Local Authority Improvement Investment	374.3	374.3	374.3
<u>Investment</u>			
Gross	1669.3	1269.3	1019.3
Sales	- 75.3	- 237.3	- 399.3
Net	1594.0	1032.0	620.0
<u>Lending</u>			
Gross	386.8	416.8	486.8
Repayments	289.3	289.3	289.3
Net	97.5	127.5	197.5
Housing Administration	32.0	32.0	32.0
<u>Total</u>	4096.7	3381.9	2593.4
Changes From 1976-7 (Cmd. 6393).	-	- 714.8	-1503.3

In addition to public expenditure figures, housing policy also has an effect on taxation. Conservatives stress on owner-occupation will reduce public expenditure but increase tax relief on mortgages (and possibly on private rented housing).

We might have to think in terms of changes of the following order:

The most recent figure available for the total of mortgage tax relief and the option mortgage subsidy is for 1975-6. Thus the figures given below for 1976-7 assumes no change in tax relief and the increase stated in Cmnd. 6393 for the option mortgage subsidy

£ million	
1976-7	998.8
1977-8	1045.3
1979-80	1038.1

All figures for Great Britain at 1975 Survey Prices. Part of the increases are due to changes in the option mortgage subsidy to take account of increases in the basic rate of tax.

#### D. Legislation

Our aim would be to avoid as far as possible the kind of legislation which provides a focus for opposition, as to some extent the Housing Finance Act of 1972 did.

We should need:

- (a) Legislation in the private rented sector.
- (b) Legislation to establish the right to buy council and new town houses.
- (c) Possibly legislation limiting rate fund contribution to housing revenue accounts, though this would have to be considered in conjunction with our policy on local government finance.

Both (a) and (b) should be pressed as rapidly as possible, and should be ready within a few months of our taking office. It would be a matter of judgement whether they were taken in one Bill.

#### E. Presentation

Once these policies have been agreed we can get on with the flat-out presentation of them as an inter-related package. So far we have concentrated on the sale of council houses in particular and home ownership in general, and we also have made a start on the private rented sector both in Parliament and at our June 25th conference at Central Office.

I recommend that early this Autumn we make a real drive to put over the total policy, using the Party Conferences, a Party Political Broadcast and a press conference all within a few days of each other to achieve maximum impact. The only thing we should not do - both for political reasons and because the figures must depend on the particular circumstances when we assume office - is spell out the extent of our likely reductions in council building and subsidies. On the other hand we must firmly prepare the ground for these and other changes of policy.

We must also continue to give strong support to Conservative local authorities over their housing policies.

Attached to this paper are the reports of the three housing policy groups (Appendices A-C), an interim paper on land policy (Appendix D) and a paper on the control of housing expenditure together with the present figures on housing expenditure and a detailed breakdown of them.

THE CONTROL OF HOUSING EXPENDITURE

SUBSIDIES

The present subsidy system is contained in the Housing, Rents and Subsidies Act (1975).

A. Basic Element of Subsidy

Paragraph 1 of Schedule 1 stipulated that a local authority shall be entitled to the basic element of subsidy which is an amalgam of the subsidies to which local authorities were entitled under the Housing Finance Act (1972). However Paragraph 8 stipulates that it may be reduced or discontinued if they have demolished or disposed of houses "or in any other circumstances which he considers relevant". The Secretary of State has power to decide on the method of calculation of any such reduction. This provision also applies to the Capital Costs Element (see below).

B. Capital Costs Element

66 per cent is paid for loan charges on "reckonable expenditure" on new building, improvements and acquisitions. The Secretary of State may alter the percentage by order under Paragraph 2 Sub-Paragraph 5. This also entitles him to decide what is reckonable expenditure.

C. Supplementary Financing Element

33 per cent of the excess loan charges in areas where interest charges are particularly high is paid. This percentage can be raised by order under Paragraph 3 of Sub Paragraph 2. This also gives the Secretary of State the power to determine what are Reckonable Loan Charges.

D. Special Element

The Remuneration Charges and Grants Act (1975) provided for the continuation of this subsidy for 1976-7 only. An amendment to Paragraph 6 would be necessary to make it payable for any subsequent year. It was originally designed to ease the transition from the Rent Freeze of 1974-5.

E. High Costs Element

Paragraph 7 Sub-Paragraph 2 states that the Secretary of State shall determine the basis of calculation for the High Costs Element. This subsidy is designed to help local authorities with specially high costs.

F. Expanding Towns Subsidy and Transitional Towns Development Subsidy

Both these subsidies are payable at the Secretary of State's discretion. The amount of Expanding Towns Subsidy is controlled by Clause 4 Sub-Section 4. Clause 5 Sub-Section 4 lays down that the Secretary of State may reduce or discontinue subsidy if a dwelling is demolished or disposed of or in any other circumstances which he considers relevant.

### G. Rent Rebate Subsidy and Rent Allowance Subsidy

75 per cent of the cost of Rent Rebate Subsidy is payable by subsidy and under the Housing Finance Act (1972) 100 per cent of Rent Allowance subsidy. The latter will reduce to 80 per cent next year unless an order is laid as one was this year.

### POLICY IMPLICATIONS

Subsidy cuts of £10 million will mean a rent increase of 4p per week (rebated). Cuts of £500 million over 5 years would mean rent increases of about £1 per a week (or over 20 per cent initially) for 5 years (including 'Normal' rent increases to cope with inflation). £100 million of this saving might be lost in increases in rent rebates.

### OPTION MORTGAGE SUBSIDY

The level of Option Mortgage subsidy in general rises with the benefits accruing from tax relief on mortgage interest. Lower mortgage rates and lower taxes would reduce the cost of the scheme. We would not expect to cut this subsidy; indeed it would be liable to increase.

### HOUSING ASSOCIATIONS

Housing Association Expenditure is made up of loans and grants to housing associations for new and improved housing. The Housing Corporation or a local authority lend money to housing associations. The Government then pays Housing Association Grant as an immediate lump sum to meet the difference between the Fair Rent fixed by the Rent Officer and the actual cost of the scheme. Each individual loan by the local authority is controlled under Section 119 of the Housing Act (1957). Each Regional Office of the Department of the Environment is allowed to approve a certain sum of lending by local authorities and gives consent individually to particular schemes. Section 7 of the Housing Act (1974) sets an overall ceiling on the level of lending by the Housing Corporation. This can only be amended by an Affirmative Resolution Order. If we intend to restrict council housing to areas of greatest stress, it may be reasonable to do this for housing associations too, (although this policy is already being pursued to some extent).

### IMPROVEMENT GRANTS

There are various types of grants to which qualifying conditions are attached. Rateable Value Limits of £175 outside London and £300 inside London were introduced in December 1974 under the Housing Act 1974. These limits were raised to £350 and £600 respectively for conversions. Local authorities have discretion under the Housing Act (1974) to authorize renovation grants for ordinary Improvement Grants or conversions. (Section 61), Repair Grants (Section 71) and Special Grants for installing extra standard amenities in houses with multiple occupation (Section 69). Intermediate Grants for the installation of standard amenities are automatic provided that the conditions are met. Improvement Grants are not available for second homes and landlords must guarantee to keep their accommodation in the rented sector for 5 years or repay the grant. There might well be a case for more generous grants for landlords if municipalization was cut back at the same time.



### LOCAL AUTHORITY IMPROVEMENT

Local Authority Improvement Expenditure is controlled by Section 105 of the Housing Act (1974). Each local authority makes an initial bid and allocations are subsequently announced. Mr. Freeson, the Minister for Housing and Construction, has set up a study group on Social Ownership and the Renovation of Council Dwellings, which conveniently advised expenditure just under the figure Mr. Crosland finally announced.

### GROSS INVESTMENT

Borrowing for New Building, Land Purchase or Municipalization is governed by Paragraph 1 of Schedules 13 to the Local Government Act (1972). The Secretary of State gives loan sanction permission individually for new construction and has given general consent in Circular 86/74 for land purchase for housing and in Circular 33/76 for municipalization of certain categories of dwelling. These circulars can of course be changed at any time.

### LOCAL AUTHORITY LOANS

Local authority lending for house purchase has been controlled since 1975-6. In that year, roughly speaking, local councils were allocated one half of the sum lent out for 1974-5. A further £52 million cut was announced for English authorities in January 1976 by Mr. Crosland, then Secretary of State for the Environment. Under the Local Government Act (1972) local councils have to obtain loan sanction for any borrowings made in order to lend for house purchase. Previously general consent was given but this is no longer the case as described above. Attached is an extract from the public expenditure survey covering housing and a breakdown of those figures given in answer to written questions.

