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see Martin

10 DOWNING STREET

From the Private Secretary

11 August 1980

Dear Martin

The Chancellor of the Exchequer and the Secretary of State for the Environment this morning discussed with the Prime Minister the basis on which local authority mortgages should be made available to older tenants. The Minister for Housing and Construction and the Parliamentary Under Secretary of State at DHSS (Mrs Chalker) were also present.

Mr. Heseltine explained that the private sector tended to stick to the 2½ times multiplier in considering mortgages right up to retiring age, but private sector lenders did of course retain the discretion to consider individual cases. In the public sector, it was essential to have a rule of thumb which could be embodied in the regulations under the Housing Act. In order to implement these regulations from 3 October, a very early decision was necessary in view of the timetable for printing and distribution of the relevant material. The Chancellor had proposed that the multiplier should taper from age 50. This would mean that some prospective purchasers would fall below the 100% mortgage entitlement which was a manifesto commitment. 50% of the tenants who might be prospective purchasers were in the 50 and above age group, about 13% of these were over 60.

The Chancellor acknowledged that the Government's objective was to put as many council houses into private hands as possible. The original aim had been to use private sector mortgages to the maximum extent possible. In discussions over some months, Mr. Heseltine's department had not been ready to consider any tapering of the mortgage entitlement. The Treasury had always considered that some form of tapering would be necessary. Officials would now have to look urgently at the public expenditure implications of various options.

Mrs Chalker explained that the lack of discretion was a real problem in the public sector and under present regulations supplementary benefit was payable to those over 65 who were in difficulties in order to enable them to meet their interest payments. This would require a change in supplementary benefit regulations. It was not possible to handle it in the forthcoming housing regulations.

After further discussion, the Prime Minister said that a decision could only be reached on the basis of a factual analysis prepared by the Treasury of the public expenditure implications of available options. It would be necessary to deal with the question of supplementary benefit entitlement. Her own instinct was that there

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should be a reduced multiplier from age 60, and the Chancellor considered that this should be on a $1\frac{1}{2}$ times basis. She was not inclined to favour a reduced multiplier for the 50-60 age group but if the absence of this had significant public expenditure implications, a different decision might be required.

The Prime Minister said that she was prepared to consider this matter further before she departs for her holiday later in the week. I understand that you have now put in hand work on this. I hope that you will be able to report further to the Prime Minister by close of play tomorrow.

I am sending a copy of this letter to Paul Bristow (DOE) and to O.C.L. Thorpe (Mrs Chalker's Office). I am also sending a copy to David Wright (Cabinet Office).

Yours ever
Mike Paterson

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H.M. Treasury.