


CONFIDENTIAL

Housing

PRIME MINISTER

Proposals for Housing Legislation:
Rent Deregulation
(C(81) 42)

The 1965 Rent Act contains a power enabling the Secretary of State to lift fair rent regulations; but the Secretaries of State for the Environment and for Wales consider it unusable in practice because it requires the Secretary of State to be satisfied that supply and demand are in balance in every part of the area selected for deregulation. The use of the power would be wide open to challenge in the courts. They therefore propose a new power to disapply the fair rent regime for new lettings in areas of England and Wales specified by order. In such areas rents would initially be agreed between landlord and tenant, though either could subsequently apply to the rent officer for a market rent to be fixed. The tenant would have full security of tenure but could pass the tenancy to one successor only. The proposed legislation would allow the deregulation power to be used in respect of new lettings for all dwellings in a prescribed area or for a particular class of dwelling (e.g. above a certain rateable value) in a prescribed area. The intention would be to use the powers initially only in non-metropolitan areas.

2. The Chancellor of the Exchequer and the Secretary of State for Industry support the paper. They argue that there is a need to reverse the long term decline of the private rented sector. This need is strengthened by the reductions in public expenditure on housing. The number of new adult households will increase during the 1980s. A revival of the private rented sector would assist labour mobility. About a third of movers who change jobs go initially into private rented accommodation, as do about a quarter of those moving with their employment. The Ministers supporting C(81) 42 recognise the danger of a political scare campaign, but consider that a robust defence can be mounted on the lines set out in paragraph 5 of the paper. The Government would make it clear that as a matter of policy the power would not be used in London or other metropolitan areas. It would be possible for the legislation not to apply to London.

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3. The matter has come to Cabinet following disagreement at a series of meetings of H Committee, which considered the proposal in the context of next Session's Housing Bill. H Committee accepted the case for a change in the law but several senior Ministers argued on political grounds that there should be no legislation during this Parliament. (H Committee did agree in principle to deregulation of rents where resident landlords wish to let part of their houses.)

HANDLING

4. The Chancellor of the Exchequer should be invited to introduce the paper. The Secretary of State for Wales and the Secretary of State for Industry (both strong supporters of a change in the law) might add any general comments, and the Minister for Housing and Construction deal with the precise nature of the proposals.

5. The Cabinet will want to look at the likely effect of the proposals on the housing market and at the political arguments. The Secretaries of State suggest that market rents outside London might be some 50 per cent higher than fair rents. How far is this increase likely to attract landlords back into letting, particularly against the threat of a Labour Government repealing the legislation. What is the relative importance for the prospective landlord of the possible financial return and the fear of not being able to evict an unsatisfactory tenant? The Secretaries of State propose no change in the law on this latter point. How great a contribution would selective deregulation of rents make to labour mobility? The power would not be used in London or the metropolitan areas, where much of the demand lies, but it could be beneficial in some growth areas, particularly in the south. The Home Secretary and the Lord Chancellor will have views on the political considerations. The Chancellor of the Duchy and the Lord President may want to comment on the implications of adding this proposal to next Session's Housing Bill. You will want, however, to postpone discussion of the general legislative arguments to the next item on the Cabinet's agenda.

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6. If the Cabinet is minded to support legislation next Session, the Secretary of State for Scotland can indicate whether he remains of the view that the power should not be taken in Scotland. The Cabinet would also need to consider whether the statutory exclusion of London from any new power would make it substantially easier to counter a political scare campaign.

CONCLUSION

7. Previous discussion and correspondence suggests that it is unlikely that the arguments in C(81) 42 will have convinced those members of the Cabinet who think that the possible housing gains do not outweigh the political disadvantages. If so, and subject to the course of discussion, you might guide the Cabinet to agree that fair rent deregulation is desirable in principle but that any legislation would best be deferred until the first Session of a new Parliament.

ReA

Robert Armstrong

28th July, 1981

M Hyde

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QUEEN ANNE'S GATE LONDON SW1H 9AT

June 1981

Mr Langfester
I have suggested
to the Chancellor's Office
that his paper should
be taken by H. wh

Dear Michael

HOUSING BILL: DEREGULATION OF RENTS

Thank you for your letter of 2 June about the inclusion in the Housing Bill of provisions for the deregulation of rents by area. As you know, the Chancellor of the Exchequer wrote to me on 8 June supporting the proposals.

I have read with interest your suggestions for ways in which we might seek to neutralise the political scare campaign against such proposals, and I note also that you and the Secretary of State for Wales remain of the view that any change in the law should take the form suggested in H(81)33. I need not remind you that at the previous discussion at H Committee the predominant view was that it would be wrong to proceed with these proposals at this time and also that we were told at Cabinet last week that the Bill will have to obtain Royal Assent by April or May 1982. If, therefore, colleagues are to look at the matter again - and I do not in any way want to discourage them from doing so - I think it should be in the context of the Bill as a whole so that we can judge the relative case for including these provisions against other candidates for inclusion in the Bill. We have agreed to resume our discussion of the Bill later this month and I understand the Secretariat have been in touch with your office about possible dates.

I am sending copies of this letter to the Chancellor of the Exchequer, to other members of H Committee and to Sir Robert Armstrong. I am also sending copies of the correspondence to the Prime Minister.

John
Hillier

The Rt Hon Michael Heseltine MP

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22 JUN 1981



Handy

PRIME MINISTER

Rent Deregulation

You told the Home Secretary early last month that you did not favour Mr. Heseltine's proposal to include rent deregulation in the housing legislation for the next session. You suggested to the Home Secretary that he should sort this out.

However, I understand that Mr. Heseltine is still intent on including this measure, and that he has been canvassing support from the Chancellor.

Assuming you still think that the inclusion of this measure would be unwise, it would be helpful if you would indicate to the Chancellor your doubts. He may then be less inclined to argue Mr. Heseltine's case with the Home Secretary.

2

17 June 1981



Housing

MR PATTISON

DEREGULATION OF RENTS

We had a brief word about the attached letters.

Our feeling is that a further discussion at H will not be useful - at least at present - and that it might be helpful if the Prime Minister and the Chancellor of the Exchequer - and possibly the Home Secretary - were to have a word about the matter.

WNH

W N HYDE

9 June 1981

RECEIVED BY

- 8 JUN 1981

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Treasury Chambers, Parliament Street, SW1P 3AG
01-233 3000

8 June 1981

The Rt. Hon. William Whitelaw CH MC MP
Secretary of State for the
Home Department

David White

DEREGULATION OF RENTS

I have seen Michael Heseltine's letter of 2 June to you asking that H Committee look again at his proposals for deregulation of rents. I strongly support his request.

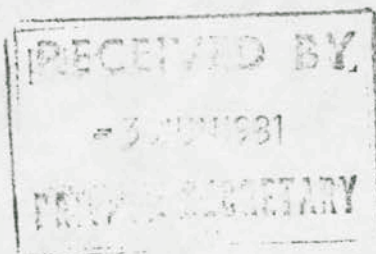
As our discussions in MISC 14 have highlighted, if in the interest of strengthening the economy we are to reduce the barriers to labour mobility, the availability of housing is one of the constraints we must tackle. I believe the private rented sector is potentially capable of making a significant contribution, especially for younger workers who would not yet be looking to become owner-occupiers, and might not rank high among the priorities of public sector housing authorities. Generating confidence among landlords is critical to improving the supply of private lettings. With the 1980 Housing Act we began this process, and the measures now envisaged would sustain the momentum.

I appreciate the Committee's concern that the political disadvantages could outweigh the benefits. However, Michael Heseltine has made clear that we would have a good case to deploy in public. As he says, whatever we do, the Labour Party will try to misrepresent our proposals, but I do not think we should let this deflect us from introducing sensible amendments to the law which are in the interest of those needing accommodation.

I am copying this letter to the other members of H Committee and Sir Robert Armstrong.

G
Howe

GEOFFREY HOWE



c Mr Hyde

2 MARSHAM STREET
LONDON SW1P 3EB

My ref:

Your ref:

2 June 1981

De l'Orli

Following the discussion at H Committee on 18 May the Secretary of State for Wales and I have considered further our proposal for deregulation of rents by area. We should like to ask colleagues to look at our proposal again in the light of the following points.

The 2 main issues which quite properly caused concern among colleagues were:

- a. the extent to which our limited proposal could be misrepresented by an Opposition scare campaign; and
- b. whether the additional rented accommodation that would result from our proposal, taking account of a well-nigh certain Labour commitment to restoring rent regulation, would justify the political controversy that it would engender.

I should like to take these 2 issues separately. On the scare campaign we are in no doubt that the Labour Party would seek totally to misrepresent our proposals, as indeed they tried - unsuccessfully - to do in London over our shorthold scheme. But we believe that the Government would have a reasonable prospect of neutralising a scare campaign by repeatedly making the following points:

- i. no existing tenant's security of tenure is in any way affected;
- ii. no existing tenant's rent is in any way affected;
- iii. all new tenants in deregulated areas would have these important protections:
 - a. total security of tenure for one generation (including a widow or widower);
 - b. all the other safeguards for tenants under the Rent Act (apart from rent regulation), including protection from eviction and harassment;
 - c. on rent, the tenant would have the right to apply to the rent officer at any time to ensure that the rent he was paying was no higher than the open market rent independently assessed by the rent officer.
 - d. the justification for deregulation is to help make


more rented accommodation available for which there is a clear need - particularly from the young and the mobile.

On the second main point, it is impossible to quantify how many additional lettings would be generated by deregulation and hence to weigh up the tangible housing benefit against the possible political disadvantages. It has to be a matter of judgement. The basic housing policy case for deregulation is that there is no way we shall re-establish the private rented sector in this country without giving landlords greater confidence, and this means demonstrating that letting at market rents can take place voluntarily on terms mutually acceptable to landlord and tenant.

Only if we are prepared to make a move of the sort we are proposing here, is there any possibility of even slowing down the decline in the private rented sector. Private lettings now only represent about 11% of households, and if the present rate of decline is allowed to continue, the sector will be virtually extinct within a decade, and confined to company or holiday lets and the residual fair rent tenancies.

For these reasons we should like to ask colleagues to reconsider our deregulation proposals, as set out in H(81)33 and 36, for inclusion in next Session's Housing Bill.

I am copying this letter to our colleagues on H Committee, and Sir Robert Armstrong.

Yours ever


MICHAEL HESELTINE

Wm
Housing 2/5 2

PRIME MINISTER

You will see from the attached minutes that H Committee have still not completely settled the question of deregulation of rents. The Home Secretary reported your suggestion that the Committee should consider deregulating rents on new properties. But it appears that the Government has already taken powers to modify rent control on new properties. The Home Secretary summed up the discussion by saying that the political damage that deregulation would cause the Government outweighed the benefits. I understand, however, that Mr. Brittan, Mr. Edwards and Sir Keith Joseph all felt strongly that some form of deregulation should be included in the Housing Bill, and they were invited to bring revised proposals back to the Committee if they so wished. If such proposals are made, the Home Secretary may well wish to consult you to discover the strength of your feeling about the political damage that proposals for deregulation may cause the Government.

WBR

mt

20 May 1981