

CONFIDENTIAL



FROM: NICHOLAS RIDLEY

DATE: 19 January 1983

CHANCELLOR

cc Chief Secretary  
Economic Secretary  
Minister of State (R)  
Sir D Wass  
Mr Middleton  
Mr Moore  
Mr Pestell  
Mr Robson  
Mr Hopkinson  
Mr Godber  
Mr French  
Mr Battishill/IR  
PS/IR

REVIVING THE PRIVATE RENTED HOUSING SECTOR

... I have discussed briefly with officials the attached notes (top copy only) of 22 December from the Revenue about the various Department of Environment proposals for dealing with the problems of <sup>the</sup> private rented sector.

I do not like any of the proposals. They are inconsistent with our general philosophy of freeing markets wherever possible. Financial relationships between private landlords and their tenant are hopelessly distorted because of legal encumbrances - largely the Rent Acts. The right way to correct those distortions is by removing the encumbrances, not by attempting to compensate for them by introducing costly new tax reliefs of one sort or another. Our aim should remain the ending of rent control, and we should make it our objective to start on this as soon as possible after the election. It will of course mean taking the issue back to Cabinet in due course.

The proposals canvassed here are simply palliatives for de-regulation - but palliatives that would be difficult to get rid of once we had tackled rent control. In any case, a minimum pre-requisite for most of them - including your own wish to see ex-council houses released into the control-free, private sector - would be a major extension of the DOE's own assured tenancies scheme. This would require new housing legislation, which, I understand, would in any event have to wait until after the election. So this package of proposals does not really offer us <sup>a</sup> quick interim solution.

Whether in practice general de-regulation can be achieved directly, or only through a series of extensions to the assured tenancies scheme, is something which we shall have to wait and see. But if in the event the latter is unavoidable, I hope that any further tax reliefs can be kept to a minimum, and so do the least damage. All experience suggests that, once given, further tax concessions would be extremely difficult to unwind, even in a free market for rented accommodation.

Only one of the proposals - the extension of the new assured tenancy capital allowance to shared ownership properties - is a possible short term measure - because shared ownership is already permissible under the assured tenancy scheme. It is included in the DOE's Budget representations (Michael Heseltine's letter of 6 January). As I have said, I am strongly against any further tinkering with tax reliefs.

But there are other reasons for resisting this proposal. First, even this limited extension could involve lengthy and complex legislative straddling the boundaries between trading profits and capital gains. Second, it is in many respects directed not at private renting but at a form of phased owner-occupation. And, third, you may recall that when I discussed the assured tenancy allowance with John Stanley in the summer, I offered him the choice between the scheme we had worked up at short notice for the 1982 Finance Bill (expressly without allowances for shared ownership which we had considered and rejected) and a major review to see whether a more wide-ranging tax relief could be developed for introduction in a following year. I said that if we did the former, that was it; we could not agree to the scheme being reopened and widened next year. The decision was to go for the scheme as it stood; but the DOE are now reneging on the understanding, and we are being pressed for an immediate extension.

My strong recommendation is that at this point we say: not an inch further so far as tax relief is concerned.



NICHOLAS RIDLEY