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PRIME MINISTER

6 November 1984

HOUSING EXPENDITURE

The options put forward by MISC 106 for the housing programme are unattractive politics. It is a pity that more cannot be saved by delivering gas and electricity cost cuts. The worst part of the housing package is the Home Improvement Grant reductions. They are big, they attack improvement of privately owned housing, and will lead to substantial opposition from local authorities, the construction industry, the jobs lobby and some Conservative MPs.

But major savings are necessary in order to hold to the more important target of the overall public spending totals. The only way we will get a healthy private sector housing market with enough new build is by lowering interest rates; and interest rates can only fall further if public expenditure targets are hit.

1. Council house new build

The suggested reduction from Patrick's 40,000 to MISC 106's 15-20,000 will be unpopular, but makes a great deal of sense. We believe the special groups that need public housing can be accommodated within that reduced total. Patrick's own Department has far too long a list of special

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cases, including, as it does, eg single people on their own, newly married temporarily unable to buy, and people moving to high-priced areas. These are the very people that a sane private rented housing market should cater for. We therefore agree with the full cuts in this area, and would even think a little more could be achieved.

There are still 6 million houses in council ownership, and Patrick's assumptions on sales imply a falling off in the rate of sales to well below 2 per cent of the stock per annum. Couldn't we aim for at least 3 per cent of the stock, and thereby greatly increase the receipts (by another £150 million for a start)?

2. Council house renovation

MISC 106 accepted the need for some increase here, in the light of the condition of some of the worst tower blocks, and the structural problems that arose following the Ronan Point collapse.

There is a huge problem, but in the end the Ronan Point type buildings are going to have to be replaced by alternative housing, and we would like to see as much of that as possible materialising in the private sector.

We would suggest, in view of the severity of the cuts on Home Improvement Grants, that no extra money be granted for

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council house renovation, and instead a drive be made to carry out the repairs and remedial works in a much more cost-effective way.

3. Home Improvement Grants

Home Improvement Grants have surged ahead in recent years. The cuts proposed would take them back to the cash level of 1981/82 before the enormous bulge in their popularity.

The cuts are so enormous that they are bound to provoke intense opposition. You could abate them by the £50 million of additional savings which would result from our recommendation on council house renovation (see Section 2 above).

Even this will not in itself make the cuts saleable. The policy on Home Improvement Grants will have to be completely redesigned. They would only be achieved if, for example, means-testing were introduced for eligibility to the Grant; if consideration were given to providing more incentive for doing some of the work yourself, or for reducing the cost of the contractor concerned; and if the number of eligible repairs was reduced further. Some of these policy changes may well be desirable in themselves, but they will have to be worked out, costed and sold to a political public who will be extremely sceptical about such changes.

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4. Conclusion

- i. We should not underestimate the political row there will be about the proposed reductions in the housing programme.
- ii. We should be robust about increasing council house sales and reducing the level of new build.
- iii. To make the cuts in Housing Improvement Grants saleable, we should redesign the policy on ^{eligibility} ~~distribution~~, and we should sell the new policy positively. Without such changes, the cuts will cause political harship.



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