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2 MARSHAM STREET
LONDON SW1P 3EB
01-276 3000

My ref:

Your ref:

The Rt Hon Norman Lamont MP
Chief Secretary
HM Treasury
Parliament Street
LONDON
SW1P 3AG

NBLM
with Treas
expand.

17 October 1989

RECC
20/10

Dear Chief Secretary

LOCAL AUTHORITY CASH INCENTIVE SCHEMES

units attached

attached
The proposals in E(LF) (89)6, endorsed by the Committee on 11 July, for short-term measures to ease homelessness included an improved cash incentives scheme to encourage council tenants to move into homes of their own, thus releasing urgently-needed vacancies for reletting. I am writing to set out what I propose.

Schemes approved to date could release a maximum of 959 council homes, 583 of them in London, for reletting. The need is far greater than this - 116,000 households were accepted as homeless last year - and there are indications that at present grant levels the response from tenants will be limited. I therefore propose to approve more generous schemes. Specifically, I propose to adopt a general policy of approving grants up to 80% of the average right-to-buy discount in the area concerned. Schemes proposed by local authorities would still be scrutinised individually to ensure that they were justified in the local circumstances, and grants would only be available to tenants of five years' standing so as not to make it more attractive to become a council tenant.

I propose also to stop requiring approved schemes to include a limit on the proportion of the cost of the new home which may be met by a cash incentive grant. (Authorities could still not pay more than the costs incurred by the tenant in obtaining accommodation elsewhere.) The attached paper sets out the case for these changes, which have been discussed between officials.

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I propose to announce the improved scheme as part of the statement on homelessness it was agreed I should publish, and would be grateful for colleagues' agreement by Tuesday 24 October. Copies of this letter go to members of E(LG) Committee and to Sir Robin Butler.

Yours sincerely

R Butler

pp CHRIS PATTEN

(Approved by the Secretary of State
and signed in his absence).

LOCAL AUTHORITY CASH INCENTIVES: REVISED SCHEME

Background

1. The revised scheme would operate, as now, under section 129 of the Housing Act 1988. Schemes submitted for approval are currently considered against the approach set out in annex B to the paper attached to Mr Ridley's minute of 22 February 1988 to the Prime Minister. A list of schemes approved is attached.

Maximum grant

2. None of the schemes provides for grants exceeding £13,000. This was the maximum proposed by Bromley, the first authority to have a scheme approved under the new powers, and has been taken as the initial benchmark for London pending evidence from authorities to justify some higher limit. A number of authorities are already clear that the current ceiling of £13,000 will have a major dampening effect on their programme, and will reduce the scheme's impact in easing homelessness and use of bed and breakfast accommodation. Wandsworth Borough Council accepted the £13,000 ceiling under protest and have recently reported that of over 100 enquiries received to date only six have led to cash incentive grant payments. Of the remainder, about 90 were not pursued because the enquirer thought not enough money was being offered.

3. Some London boroughs have decided that they will not apply for a scheme unless the grant level can be raised. Hillingdon, for example, who had run an earlier pilot scheme offering incentive payments above £13,000, say that grants at the present level would create little or no interest and that they are unwilling to devote resources and officer time to promoting such a scheme. If they had applied a £13,000 limit under their earlier scheme they say they would not have secured any of the 14 vacancies they did: the average income of applicants for Hillingdon grants last year was £9,000.

4. The present grant levels cannot, in fact, be expected to yield large numbers of vacancies, because of the competition of the right to buy. Most cash incentive schemes are targeted at family houses, not flats, and tenants of houses in high-value areas will generally do better, financially, to exercise the right to buy and sell in three years, when the requirement to repay discount ceases to apply. Cash incentive schemes are thus currently aimed at tenants of houses who can afford owner-occupation with modest assistance but have non-financial reasons for not wanting to buy their present homes. Such tenants are bound to be a minority.

5. Consideration has therefore been given to the level of incentive payment which would make the choice between moving out and exercising the right to buy more financially neutral. Time preference variables make it impossible to predict accurately the point at which a tenant will be indifferent between, on the one

hand, exercising the right to buy with an opportunity to realise the discount in cash terms after three years, and on the other hand taking a cash incentive which offers cash now. It seems reasonable to deduct about 20% from the RTB discount to reflect these factors. The attached table sets out average RTB discounts in each of the London boroughs in the first half of 1988/89 and the maximum cash incentives which this approach would imply: mostly in the low £20,000s.

6. Careful presentation is needed with any scheme which offers council tenants assistance not available to other first time buyers. If, however, cash incentives of this order were offered by local authorities in London it would not seem difficult to defend the benefit received by the individual by reference to the vacancy released. The costs of securing vacancies for payments of this order would also still compare favourably with the costs of other forms of provision. The comparison is set out below:

Cash incentive: perhaps £22,000
New build: £72,000
Acquisition and renovation of existing dwelling: £88,000
Bed and breakfast for one household: £15,000 pa.

The figures are for London; for new provision they refer to the public sector cost of a three-person general needs dwelling in London provided by a housing association with 15% private finance.

Impact on house prices

7. There appears to be no risk that grants at this level would have any discernible impact on local house prices: in London, for instance, a few thousand extra purchasers assisted with cash incentives would be unlikely to have any effect in a market of over 1.6m owner-occupied properties, around 10% of which changed hands last year. The possible effect on local house prices is in any case one of the factors considered in vetting proposed schemes.

Safeguards

8. To guard against people seeking to obtain tenancies in the hope of being offered a grant at the higher rate, and to take account of the fact that grants would be based on average RTB discounts, grants under the improved scheme would only be available to public sector tenants of at least five years standing. It would be for the authority to satisfy itself that any grant it proposed represented value for money, taking deadweight into account. Authorities are required to scrutinise applicants' financial circumstances and make grants available only to those who could not otherwise afford to buy. Moreover, authorities have an incentive not to offer higher grants than necessary, so as to maximise the number of vacancies secured for a given level of expenditure. Scheme approvals would be subject, as now, to requirements for formal monitoring.

Purchase of house in area of low prices

9. There is currently a limit of 30% on the proportion of the cost of the new home which is met by grant. The thought was that a tenant moving to an area of lower house prices ought to make some contribution to the cost of the new home, even if the purchase price was no greater than the cash incentive. On reflection this seems unnecessary. A tenant in Bromley considering buying a cottage in a remote area for £13,000 will be told that he must pay £9,750 himself. He will only get the full grant if he buys a property worth at least £52,500, so there is an incentive to buy a more up-market property than is needed. The rule in any case penalises the people the scheme most needs to attract: those who are prepared to relieve the demand for housing by moving to areas of relative surplus. It is therefore proposed to relax this restriction. The legislation is in such terms that the grant cannot exceed the costs incurred by the tenant in securing the new home.

Resources

10. Section 129 makes clear that grants count as capital expenditure. Expenditure on the higher grants proposed would have to be contained within authorities' available capital resources, which for 1990/91 will in turn reflect the outcome of the current Survey. Scheme approvals set a limit on the total expenditure to be incurred by each authority.

Targeting

11. Cash incentive schemes are only approved for areas where the need for rented housing makes it possible to justify the benefit received by tenants receiving grants. Most of the areas where cash incentive schemes are approved will be the same areas which are the target of other measures to deal with homelessness, but proposals for schemes in other areas must be considered on their merits.

Department of the Environment
13 October 1989

LOCAL AUTHORITY CASH INCENTIVES SCHEMES APPROVED, 1989/90

Authority	Max grant	Max expenditure	Max no of grants
LONDON			
Bromley	£13,000	£1m	100
Croydon	£13,000	£650,000	50
Ealing	£13,000	£750,000	57
Hammersmith & Fulham	£10,000	£200,000	30
Haringey	£13,000	£500,000	38
Harrow	£12,500	£200,000	16
Havering	£13,000	£350,000	27
Wandsworth	£13,000	£2m	150
Westminster	£13,000	£1.5m	115
SOUTH WEST			
Carrick	£5,000	£100,000	20
Kennet	£10,000	£100,000	10
Mendip	£10,000	£210,000	21
N Cornwall	£7,500	£97,500	13
Taunton Deane	£10,000	£275,000	35
EASTERN			
Colchester	£10,000	£150,000	20
Luton	£13,000	£150,000	12
Rochford	£11,250	£56,250	5
South Bucks	£11,000	£66,000	6
St Albans	£13,000	£150,000	12
SOUTH EAST			
Adur	£10,000	£80,000	8
Arun	£10,000	£50,000	5
Gillingham	£8,000	£60,000	7
Gravesham	£10,000	£200,000	25
Hart	£8,000	£100,000	12
New Forest	£10,000	£250,000	30
Rochester	£8,000	£200,000	32
Rushmoor	£8,000	£50,000	6
Shepway	£13,000	£100,000	8
Slough	£13,000	£500,000	30
Tandridge	£12,000	£144,000	12
Test Valley	£10,000	£200,000	20
T. Wells	£12,000	£200,000	18
Wealden	£6,000	£60,000	10

33 schemes approved; maximum expenditure £10.7m; maximum number of vacancies 959

13 October 1989

RIGHT TO BUY DISCOUNTS: LONDON BOROUGHGS

The first column gives the average right-to-buy discount reported by the borough in the first half of 1988/89; the second column gives the figures in the first column discounted by 20%.

	Average right to buy discount	Value discounted by 20%
Barking & Dagenham	£22,000	£18,000
Barnet	£26,000	£21,000
Bexley	£27,000	£22,000
Brent	£26,000	£21,000
Bromley	£27,000	£22,000
Camden	£29,000	£23,000
Croydon	£26,000	£21,000
Ealing	£26,000	£21,000
Enfield	£25,000	£20,000
Greenwich	£26,000	£21,000
Hackney	£29,000	£23,000
Hammersmith & Fulham	£29,000	£23,000
Haringey	£29,000	£23,000
Harrow	£30,000	£24,000
Havering	£26,000	£21,000
Hillingdon	£26,000	£21,000
Hounslow	£26,000	£21,000
Islington	£32,000	£26,000
Kensington & Chelsea	£36,000	£29,000
Kingston	£28,000	£22,000
Lambeth	£29,000	£23,000
Lewisham	£29,000	£23,000
Merton	£26,000	£21,000
Newham	£29,000	£23,000
Redbridge	£24,000	£19,000
Richmond	£29,000	£23,000
Southwark	£29,000	£23,000
Sutton	£36,000	£29,000
Tower Hamlets	£29,000	£23,000
Waltham Forest	£26,000	£21,000
Wandsworth	£26,000	£21,000
Westminster	£31,000	£25,000



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31/10

Treasury Chambers, Parliament Street SW1P 3AG

The Rt Hon Christopher Patten MP
Secretary of State for the Environment
Department of the Environment
2 Marsham Street
London
SW1P 3EB

31 October 1989



Dear Chris

LOCAL AUTHORITY CASH INCENTIVE SCHEMES

Thank you for your letter of 17 October. Our officials have been in touch about this issue which we discussed at our first bilateral last month.

2 As colleagues have recognised, there is a risk that we may come in for considerable criticism from our supporters for increasing to extremely generous levels a subsidy from the taxpayer to enable council house tenants to compete in the private housing market on advantageous terms when other first time buyers may well have to work very hard to get a foot on the housing ladder.

3 That said, I recognise that so long as the expanded scheme is restricted to those local authorities facing the most acute housing shortages, it appears to represent a reasonably cost-effective way of creating housing opportunities for the homeless and plays an important part in our offering a multi-faceted homelessness package. I am particularly pleased to see that you are suggesting that the available grants should be only 80 per cent of the average right-to-buy discount and grants would only be available to tenants of five years' standing. This should ensure that the success of the right-to-buy in generating receipts and reducing the local authority housing stock is not jeopardised to any great extent in any area and that there will not be too much of an incentive for people to join the council's waiting list so as to benefit from a possible discount in the future.

4 Accordingly I agree to your proposals. I regard it as most important however that the scheme should be strictly limited to those areas with the most acute homelessness problems and I would be grateful if your officials could consult mine to draw up

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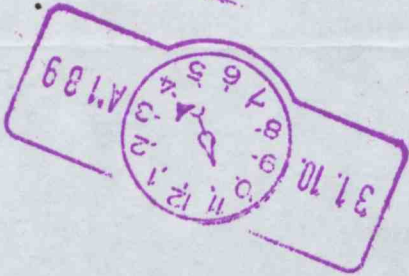
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guidelines to determine which authorities might be allowed to participate. We considered the resources which would be necessary in our Survey discussions and the credit approvals you feel necessary for the scheme will need to be within the provision we agreed.

5 I am copying this letter to members of E(LG) and to Sir Robin Butler.

Yours
Norman

NORMAN LAMONT





CCP

2 MARSHAM STREET
LONDON SW1P 3EB
01-276 3000

My ref:

Your ref:



The Rt Hon Norman Lamont MP
Chief Secretary
HM Treasury
Parliament Street
LONDON
SW1P 3AG

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REC 6

8/11

7 November 1989

In Norman, at flat

Thank you for your letter of 31 October agreeing to my proposals for an improved cash incentives scheme.

I agree, of course, that the scheme should be limited to areas where there are special problems. My officials are in touch with yours about how this can best be achieved.

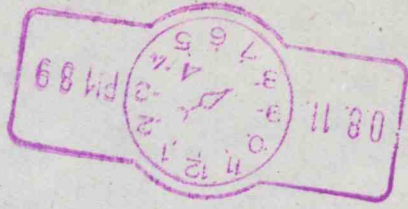
Copies of this letter go to E(LG) members and to Sir Robin Butler.

CHRIS PATTEN



Local Govt: Relations

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DEPARTMENT OF SOCIAL SECURITY
Richmond House, 79 Whitehall, London SW1A 2NS
Telephone 01-210 3000

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From the Secretary of State for Social Security

The Rt Hon Norman Lamont MP
Chief Secretary
HM Treasury
Parliament Street
LONDON SW1P 3AG



NBLM

Recd 7/11

November 1989

L Norman

LOCAL AUTHORITY CASH INCENTIVE SCHEMES

I have seen Chris Patten's letter *at hand* of 17 October, and am content with his proposal that an improved scheme should be announced as part of his Statement on homelessness.

Copies to go to members of E(LG) and to Sir Robin Butler.

ew.
Tony

TONY NEWTON

Local Gov: Pels

1437





SCOTTISH OFFICE
WHITEHALL, LONDON SW1A 2AU

CCP

The Rt Hon Christopher Patten MP
Secretary of State for the Environment
Department of the Environment
2 Marsham Street
LONDON
SW1P 3EB

NBM

*PLG
25/10*

24 October 1989

Dear Secretary of State

LOCAL AUTHORITY CASH INCENTIVE SCHEMES

at Glasgow
I refer to your letter of 17 October in which you indicate that you propose to adopt more generous criteria for approving local authority cash incentive schemes.

I have no objection to your announcing revised criteria for England but I do not believe that I would be justified in following suit here. House prices are generally not as high in Scotland as in many parts of England, and in our experience it is the local authorities who are reluctant to make use of the cash incentive provisions in Scotland rather than the tenants. Any proposals to make the cash incentive scheme more generous to tenants might perversely make some Scottish authorities more reluctant to bring forward proposals for my consent. In the circumstances, therefore, I do not propose to announce any changes to the criteria for consideration of cash incentive schemes in Scotland.

Copies of this letter go to members of E(LG) Committee and to Sir Robin Butler.

James Reville

PP

MALCOLM RIFKIND

*Approved by the Secretary of State
and signed in his absence.*

Local Gov't. Relations

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