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11 January 1980

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SALE OF COUNCIL HOUSES:
FINANCIAL APPRAISAL

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I think that the Prime Minister will wish to know that we intend to publish today our appraisal of the financial effects of council house sales. I attach a copy along with a copy of the press statement which my Secretary of State is issuing.

I am copying this to John Chilcot (Home Office), John Stevens (Leader of the House), Murdo McLean (Chief Whip), John Wilson (Scotland) and Bob Williams (Wales). A separate letter is going to the Chancellor.

May I ask that the paper be treated as confidential until it is published.

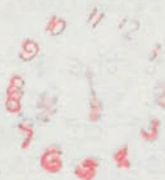
for you

David Edmonds

D A EDMONDS
Private Secretary

Tim Lankester Esq

11 JAN 1940



Press Notice

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11 January 1980

SALE OF COUNCIL HOUSES

Michael Heseltine, Secretary of State for the Environment, has today published an appraisal of the financial effects of the sale of council houses.* Mr Heseltine said:

"The appraisal which we have published today represents a most rigorous, sophisticated and comprehensive attempt to assess the financial effects of the sale of council houses.

"To provide the fullest view of the effects, the appraisal has been made both from the standpoint of local authorities alone, and from the standpoint of local authorities and central Government taken together. To maintain objectivity a very wide range of alternative assumptions has been used.

"The appraisal shows that for the first 20 years, in all the assumptions examined in the appraisal, the sale of council houses would be financially beneficial to both local authorities and to the Exchequer.

"That takes us to the end of this century. Beyond that the assumptions, and therefore conclusions based on them, must be still more speculative.

"The appraisal reinforces our view that the sale of council houses should bring appreciable benefits, not only to council tenants, but to the community as a whole."

NOTE TO EDITORS

Mr Heseltine announced in the House of Commons on 23 October 1979 that he intended to publish an appraisal of the financial effects of the sale of council houses for Parliamentary consideration of the Housing Bill (Hansard(COL) 142 WA 23 OCT 1979).

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* "APPRAISAL OF THE FINANCIAL EFFECTS OF COUNCIL HOUSE SALES"
DOE Price £1.20

APPRAISAL OF THE FINANCIAL EFFECTS OF
COUNCIL HOUSE SALES

Department of the Environment
Scottish Development Department
Welsh Office

January 1980

APPRAISAL OF THE FINANCIAL EFFECTS OF COUNCIL HOUSE SALES

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PART ONE: INTRODUCTION AND BASIS OF APPRAISAL

1. The Housing Bill now before the House would confer on council, new town, and some housing association tenants of three years standing or more the right to buy the houses and flats in which they live. The Government's policy of selling council houses stems in the first instance from the importance it attaches to home ownership; but selling council houses does have financial effects for public funds. This paper attempts to assess those effects.

2. The basis of analysis in this paper and all the economic assumptions used are relevant in Scotland as well as in England and Wales. Some differences in the detailed application to Scotland must be expected, particularly because the subsidy system introduced there by the Housing (Financial Provisions) Scotland Act 1978 is only settling down and is not subject to proposals for major change and because the rent losses that may be expected to arise there, insofar as their tradition of relatively lower rents continued, would be smaller. A brief indication of the effects of these differences is given at the appropriate parts of the text (see paras 36 & 48). Certain other points, generally of more limited significance, which are made in the paper may not apply in Scotland in quite the way that they apply in England and Wales but in order to keep the general argument as simple as possible these points have not been detailed in the text.

3. No claim can be made to certainty in an appraisal of the financial effects of selling council houses. That the future is fraught with uncertainty is a commonplace. But it is nevertheless true. No service is rendered by conveying an impression of certainty where no such certainty exists; the best that can be done is to recognise uncertainty and show how sensitive are any conclusions to variations in any or all of the assumptions on which those conclusions rest. Ranges are given not to show the bounds within which the answer must necessarily lie, but only to give an indication of the sensitivity of the calculations to alternative assumptions.

4. The financial effects of sales are appraised from two standpoints: that of (i) the disposing local authority; and that of (ii) central government and local authority taken together, as in public expenditure surveys and in calculating the public sector borrowing requirement (PSBR). The two are very closely related; for instance when subsidy previously payable by the Exchequer to a local authority is terminated as a result of the house being sold, the loss to the local authority is matched by an exactly equal gain to the Exchequer, and in an appraisal from the standpoint of central government and a local authority taken together the gain and the loss net out.

5. There is no unique "correct" time period for analysing the financial effects of selling council houses. Account must be taken of both short term and longer term effects. Neither in isolation gives a complete picture. Consideration of the longer term effects however, means that present value (PV) calculations must be used.

6. The principles of present value (PV) calculations are now widely understood, but a brief reference to them may nevertheless be helpful. So long as money can be invested to earn interest, near at hand receipts and payments count for more than distant receipts and payments of the same money sum even when the value of money is stable from year to year. If the value of money is falling from year to year (as it has done in every year since 1933 in the United Kingdom), near at hand receipts and payments count for all the more relative to distant receipts and payments. The present values of future payments are subtracted from the present values of future receipts to arrive at net present value (NPV).

7. The rate of interest used to do the discounting is very important in a financial analysis that incorporates an NPV calculation; and the longer the period of time covered, the greater the difference made to the result by the discount rate used. The rate of interest that is appropriate is the cost of money to government, the individual, or the firm (as the case may be) and the yield at which it can invest money. For government, these rates will normally be the rate paid on newly borrowed money. Reduced payments/increased receipts reduce the amount to be borrowed; increased payments/reduced receipts have the opposite effect.

8. Where the sequence of payments or receipts being discounted to present value rises through time, for instance rents that rise because costs are increasing, or outlays for upkeep and management that rise owing to increases in pay not offset by increases in productivity, the present value depends on the difference between the rate of interest used to do the discounting and the annual increase in the sequence of payments being discounted. If rents rise at 6%, the present value, discounted back at 3% interest, is approximately the same as if the annual rate of increase was 10% and the rate of interest used to do the discounting 12%. The 2% difference is termed the "net rate of interest".

9. For parts of the appraisal, however, the concept of a net rate of interest cannot be applied. The Exchequer subsidy that is withdrawn when a council house is sold, for example, will be determined according to rules that will be laid under the Act. The present value of these subsidy payments will depend on the length of time they last, and the rate of interest used to discount them. The same is true of the present value of tax relief on mortgage interest. The

amount is governed by the mortgage interest rate, the tax rate, and the size of the mortgage. The last of these is fixed at the outset; so the concept of the net rate cannot be used here either. Assumptions about gross rates of interest are therefore indispensable. The assumptions about gross rates of interest have implications for what assumptions are appropriate for the rate of rise of the general price level and of earnings, ^{and so} have implications for the rate of rise of rents. For working out the present values of rents, the concept of the net rate of interest is used.

10. Paragraph 5 mentioned that there was no uniquely correct time period to take for the purpose of appraising the financial effects of council house sales. Several periods are therefore taken. For local authorities, for local authorities and central government taken together, the time periods are the first year; the first eight years; twenty years; and fifty years.

(a) The first year effects indicate the immediate cash flow effects.

These effects are important to central and local government because they affect the public sector borrowing requirement straight away.

(b) The first eight years are taken in order to show short term financial effects. The period 1970/71 to 1978/79 may be used to show what would have been the financial effects arising from a sale in 1970/71, using the actual figures for rents, interest rates, and prices. To go further back would take in part of a period when the course of interest rates and prices was very different.

(c) Twenty years is perhaps the maximum period for which economic assumptions can be regarded as having some degree of predictability, but even this is very questionable. For instance it is highly unlikely that any similar appraisal carried out twenty years ago would have predicted the economic conditions experienced in the 1970's.

(d) Fifty years is taken as an illustrative very long term case; though it must be stressed that economic assumptions that reach to the year 2030, and therefore any conclusions from them, must be largely if not wholly speculative.

11. The calculations are in terms of reasonably representative figures, which are considered to provide a fair picture but which do not apply to each and every instance. The use of average values (eg for selling prices, rents, and costs of upkeep) should not obscure the existence of wide variations around averages. The calculations presented can thus not show what would be the financial implications of selling any particular house, or of the financial effects for any

specific authority. In such instances, although the method of calculation would be applicable, the figures to feed into it would depend on the particular circumstances of the case.

12. At this stage, making the appraisals in terms of 'average' or 'representative' figures results in the appraisal being related to the sales of houses as distinct from flats. Thus far, sales have been predominantly of houses, though the right to buy will include tenants of flats. But when long leaseholds of flats are sold there will have to be financial arrangements not usually occurring in connection with sales of houses, especially about maintenance of the structure and the lighting and cleaning of common parts. There is not yet enough information about such arrangements to incorporate into a calculation; nor is there information about the relationship of the selling price of long leaseholds of flats to the rent payable for them. So the present appraisal refers to houses.

PART TWO: THE ELEMENTS OF THE APPRAISALS

13. This section outlines the structure of the appraisal from the standpoint of the disposing local authority; and local authorities and central government combined. The values for the elements in each appraisal, the evidence for them, and the numerical results, are considered in Parts Four and Five. This part sets out the outline of the two appraisals.

14. The elements in the appraisal from the local authority's standpoint are:

- (i) Selling price
- (ii) less the present value of the rent that the house would have produced in local authority ownership
- (iii) plus the present value of expenditure on upkeep and management that would be avoided by selling
- (iv) plus the present value of future expenditure on renovation avoided by selling
- (v) less present value of Exchequer subsidies withdrawn when the house is sold.

Question may also be raised about (a) the cost of building a new house to replace the vacancy that the local authority would have had available (if it had retained the house for letting) to provide for an incoming tenant; and (b) about the value of the site when the house on it comes to the end of its useful life. Of these (a) is discussed in some detail in Part IV. For reasons set out there (and in the Annex), in a high proportion of instances the question of replacement could not arise until far into the future, too far off to judge now whether replacement would be needed or not. So it is not included along with (i) to (v) above, which have to be evaluated in every instance. These arguments apply equally to site values; for the representative house might not reach the end of its useful life until even further into the future than the end of the periods referred to in paragraph 10

15. The element in the appraisal from the standpoint of central government and local authorities taken together:

- (i) Gain or loss to the local authority
- (ii) plus present value of central government subsidy withdrawn
- (iii) less present value of tax relief on mortgage interest, or option mortgage subsidy.

Of these (ii) simply nets out item (v) in the local authority's account. In a consolidated account for central government and local authorities taken together, the local authority's loss and the Exchequer's gain cancel out.

PART THREE: ECONOMIC ASSUMPTIONS

16. Part One outlined the importance of interest rates in the appraisal, and the reasons why assumptions were needed about the actual (or "gross") rate of interest. Assumptions are also needed about the course of incomes and of the general price level; for incomes affect both the demand for housing and ability to pay; and the rate of rise of the general price level has its effect on the rate of rise of the costs incurred if a house is retained in local authority ownership. The gross rate of interest and the rise in the general level of prices are related through the "real rate of interest" (ie the gross rate of interest less the annual rise in the general level of prices); and the rise in earnings and the rise in prices are related through the rise in real earnings.

17. The determination of the "real" rate of interest is a very complex subject about which there are differing views about both the underlying theory and about the interpretation of recent evidence. To comment on such controversies would be inappropriate here; but the assumption taken about the 'real' rate of interest has so great an effect on the present value of rents, and hence on the whole appraisal, that a reasoned justification is necessary for any assumptions made. The historical record is briefly summarised in Table 1.

Table 1. Interest Rates and Prices

	Annual rise of the price level (a)	Yield on Consols (b)	Real Rate Of Interest
1870-1913	+0.1	2.9	2.8
1913-24	+5.9	4.3	-1.6
1924-38	-0.6	3.9	4.5
1938-47	+6.6	3.1	-3.5
1947-55	+4.2	3.7	-0.5
1955-70	+3.5	6.1	2.6
1970-78	+12.8	11.9	-0.9

Note: (a) Measured by the consumers' expenditure deflator from national income accounts. (b) Used as a measure of the long term rate of interest that is available for a long run of years, consistently defined.

18. The war years were clearly exceptional and so (it could be argued) were the 1920's and early 30's when prices fell; and the emergence in the later 1950's and the 1960's of a "real" long term rate of interest of between 2½% and 3% could be interpreted as a return to the historic level of 3% or just under. Experience in the 1970's has been very different, but hard to interpret. That interest rates do not respond at once to an acceleration of inflation is generally accepted, as they are influenced by the expected rate of rise of the price level, which may not be the same as the actual rise in the price level. But the years since 1973 have seen a marked slackening of the growth of the economy, which if long lasting should bring down the real rate of interest. There are conflicting opinions about how to interpret the experience of the 1970's, so the best that can be done here is to take alternative assumptions. The higher is that the long term real rate of interest will average 3%, in effect a return to conditions in 1955-70 with experience in the years from 1973 to date regarded as a passing phase. The lower assumption is that the real rate of interest will average 1%, ie that the 1970's have seen a change of trend that will persist.

19. Somewhat similar considerations apply to real earnings, for which the historical record is set out in Table 2. The time periods are similar to those in Table 1, but with a break at 1973 to show the change of trend that occurred then.

Table 2. Real Earnings In the Long Term

	(percent a year)
1870-1913	+1.1
1913-24	+1.5
1924-38	+1.2
1938-47	+2.3
1947-55	+1.9
1955-70	+2.6
1970-73	+3.6
1973-78	+0.1

20. Part of the explanation lies in the adverse movement of the terms of trade, and particularly oil prices; but there has been since 1973 a sharp reduction in the rate of rise of productivity in virtually all sectors of the economy. Opinion is divided about how far this check to the rise of productivity is the result of a fall (relative to pre-1973 trends) in demand and output deeper and more prolonged than on any occasion since the war; and how far it is the consequence of more deep-rooted changes in the economy. Again, the best that

can be done is to take alternative assumptions. The higher is a 2% a year increase in real earnings (ie the 1955-70 period less the effect of the favourable movement of the terms of trade); the lower is 1% a year (ie conceding the possibility of a basic change during the 1970's but with some allowance for the rise in real earnings having been kept down by deflationary conditions.

21. Real interest rates and real earnings are also connected. A persisting rise of real earnings in excess of the real rate of interest is unlikely except when real interest rates are kept down by exceptional circumstances as in war. But when real interest rates are low, the difference from real earnings, will probably be small. So in the set of assumptions used here, a 3% real interest rate and the 2% a year rise in real earnings go together, as do the 1% a year rise in real earnings and 1% real interest rates. These assumed relationships between real interest rates and real earnings are not on the same basis as those in actuarial appraisals of pension rights, for instance, because pension funds invest in a wide range of assets including real property and ordinary shares, not just Government securities.

22. As assumption is finally required about the general price level, to turn the "real" rates into gross rates. The historical record (Table 1) reveals such marked disparities both between pre-war and post-war experience and before and after 1970 that there is no basis for determining from the historical record a reasonable range of possibilities over the next 20 or 50 years. The best that can be done is to take alternatives that are far enough apart to show how sensitive to the assumptions made about inflation. The working assumptions chosen are 9% and 4%. 4% would broadly represent a return to 1949-70 experience. A rate lower than 4% is of course both possible and desirable.

23. The economic assumptions are summarised below.

	Lower Inflation		Higher Inflation	
	Lower Earnings Growth	Higher Earnings Growth	Lower Earnings Growth	Higher Earnings Growth
Rise in general price level	4% pa	4% pa	9% pa	9% pa
Rise in earnings	5% pa	6% pa	10% pa	11% pa
Interest rate (for discounting)	5%	7%	10%	12%

PART FOUR. APPRAISAL FROM THE STANDPOINT OF THE LOCAL AUTHORITY

24. In paragraph 14 were listed five elements that would necessarily be included in any appraisal from the standpoint of the local authority, namely: (i) the selling price; (ii) the rent that would be foregone by selling; (iii) the expenditure on upkeep and management that would be saved; (iv) future expenditure that would be incurred on renovation if the house was retained for letting; and (v) the Exchequer subsidy that would be given up by selling. Two further items were referred to as the being subject to question, namely: (a) the cost of building a house to replace the "lost" re-let; and (b) the capital value of the site at the end of its useful life. These seven elements are considered in sequence.

(i) Selling Price

25. The average selling price depends partly on the market values of the houses sold (before deduction of discounts); and partly on the size of the discounts. The Bill provides for a right to buy at discounts varying from 33% for households who have been local authority tenants for three years, rising by 1% for each year as a tenant to a maximum of 50%. Sales may be made at 30% discount to tenants with less than 3 years standing. Broad estimates have been made of the total number of tenants with less than 3 years standing, between 3 years and 20, and 20 years or more, namely 15% (0.8 million); 55% (2.7 million), and 30% (1.5 million) respectively. This is not, of course, the same thing as the sizes of discounts for householders who actually buy, which could well be different. There is not the information to link total length of time as local authority tenants (as distinct from length of residence at the present address) to household characteristics relevant to whether the householder is likely to buy, in particular income, employment, and age. There is no way of forecasting the size of discounts to which actual purchasers will be entitled; the best that can be done is to take the 40% mid point, and comment on what difference would be made if the discount were 30% or 50%.

26. Market values (ie prices before discount) of houses sold by local authorities (excluding houses built for sale) in England and Wales were:

	Number of houses sold	Average Price before discount
1977/78	13,836	£8,750
1978/79	37,039	£10,450
1979/80 (first half)	13,500	£12,250

These figures do not necessarily indicate the rate of rise of market values of houses sold by local authorities, in a way that can be compared with house prices generally, as the authorities selling were not necessarily the same throughout, so the geographical mix of dwellings sold may have altered.

Nevertheless, the figures for the first half of 1979/80 are the best guide available to what house prices may be expected to be in 1980/81. Although the rise in mortgage rates announced by the Building Societies Association in November 1979 is likely to slow down the rise in house prices, the out-turn for house prices paid in the open market (the principal source of evidence for valuers putting market prices on the council houses) is likely to be higher for 1979/80 as a whole than for the first half of the year. A 10% increase between the two halves of 1979/80 followed by a level trend of prices during 1980/81 would give an average price before discount, of £13,500; a slow increase during the year could give £14,000. £14,000 is therefore taken as the national average price before discount in 1980/81. The central example of the 40% discount therefore has a disposal price of £8,400. With 30% and 50% discounts (the outer limits) the figures would be £9,800 and £7,000.

(ii) Rents

27. The rate of rise of rents is perhaps the most critical of all the assumptions in its effect on the long term financial effects of selling council houses. Rents are determined locally, subject to the statutory duty to make "reasonable charges" for accommodation let by local authorities, and the duty to finance from rents and a rate fund contribution outgoings not covered by subsidies available from central government. Loan charges are the largest item of outgoings, and are determined partly by interest rates and partly by the amount of capital expenditure. Rising interest rates affect not only the loan charges generated by new capital expenditure but also (via the re-financing of outstanding debt) loan charges on earlier expenditures. When rising interest rates coincide with a rising capital programme, as in 1964-68 and 1973-76, pressures on local authorities' housing accounts are at their highest. With an inflexible subsidy system as in 1964-68 heavy pressure is put on rents and rates. In 1973-76 the subsidy system resulted in much more of the increase being borne by the Exchequer. What will happen to rents in future will thus depend partly on costs (which in turn may be divided into those generated by the standing stock and those generated by adding to it); the subsidy system; and by local decision about how much to raise from rents and how much from rates. What will happen in the really long term cannot be forecast in the ordinary sense of the word; in particular, the amount of new building by local authorities will depend on policies about what constitutes "housing need", on demographic and economic changes, and on preferences as between owning and renting that are very hard to foretell. As to subsidy systems, the provisions in the Bill are the fourth major re-casting within two decades (the Housing Act 1961, the Housing Subsidies Act 1967, and the Housing Finance Act 1972 being the others; the Housing Rents and Subsidies Act 1975 was avowedly an interim measure), so what will happen in the next twenty years, let alone fifty is very hard to say.

28. In face of these uncertainties, two ways have been adopted of selecting assumptions about the future rise of rents. One is to use conventional or 'commonsense' assumptions that rents will rise in line with prices or earnings. The second is to refer back to the historical record, and show what would happen to rents if they moved in the same way, relative to earnings or prices, as in selected past periods. Since ^{the} appraisals include cash flows that reach far into the future, it is appropriate to look at the historical record over an equally long run of years.

Table 3. Increases In Rents, Prices, and Earnings 1929-79

	(annual percentage rates of increase)				
	Rents	Earnings	Prices	"Real" Rents	"Real" Earnings
1929-79	5.8	6.9	5.0	0.8	1.9
1959-79	9.7	10.2	7.8	1.9	2.4
1969-79	11.6	15.0	12.3	negative	2.7
1974-79	11.1	16.4	15.0	negative	1.4

Notes: (i) Increases in rents refer to average rents; the composition of the stock has changed through time, so the figures represent only approximately the increases in rent of the same house.

(ii) The 1929 rent figure is only approximate, and was based on the 1936 survey data.

29. From this historical record four rent assumptions have been derived:

1929-79: Rents rise (in real terms) at 40 percent of the growth of real earnings;

1959-79: Rents rise (in real terms) at 80 percent of the growth of real earnings;

1969-79: Rents rise at a rate equal to 95% of the rise in the general price level;

1974-79: Rents rise at a rate equal to 75% of the rise in the general price level.

These assumptions, together with the conventional assumptions of increases in line with (a) earnings or (b) prices are illustrated in the next paragraph in terms of the rates of increase in rents in money terms that they imply. To make the figures easier to follow, the rent assumptions are listed in descending order of rates of increase:

(i) Rents increasing in line with pre-tax earnings

(ii) Rents increasing in line with prices

- (iii) Rents increasing as over the last 50 years
- (iv) Rents increasing as over the last 20 years
- (v) Rents increasing as over the last 10 years
- (vi) Rents increasing as over the last 5 years

30. These assumptions were turned into annual average percentage rates of increase by reference to the description at the start of paragraph 29, and the assumptions about earnings and prices specified in paragraph 23. The average rates of increase were rounded to one place of decimals, eg with inflation assumed to run at 9%, a rise equal to 75% of the inflation rate is 6.8% a year; and with real earnings increasing by 2% a year an increase 80% as fast as the growth of real earnings is equal to 1.6% a year in real terms, ie 10.6% a year if the assumed rate of inflation is 9% a year. To make the figures easier to follow the rent assumptions are shown in descending order of rate of increase. The terms lower and higher inflation and lower and higher earnings growth refer to paragraph 23.

	Lower Inflation		Higher Inflation	
	Lower Earnings Growth	Higher Earnings Growth	Lower Earnings Growth	Higher Earnings Growth
Interest rate for discounting (%)	5	7	10	12
<hr/>				
<u>Increase in rents</u> (percent a year)				
(i) With earnings	5	6	10	11
(ii) 1959-79	4.8	5.6	9.8	10.6
(iii) 1929-79	4.4	4.8	9.4	9.8
(iv) With prices	4	4	9	9
(v) 1969-79	3.8	3.8	8.6	8.6
(vi) 1974-79	3	3	6.8	6.8

31. In calculating the present value of the rent foregone by selling a council house, provision must be made for the fact that for part of the time the rent that would be received would be less than the standard (ie un-rebated) rent. Although a tenant who exercised the right to buy would be unlikely to be entitled at the time to a rent rebate, he might well have become entitled to a sizeable rebate after retirement (see paragraph 33 below). Moreover, a small proportion of local authority houses are unoccupied at any one time, and so not producing rent.

32. Rent rebate subsidy reimburses a local authority for part of the cost of rent rebates. Under present law rent rebate subsidy is payable at 75% of rebates granted in accordance with the standard scheme; the provisions of the Bill would raise this proportion to 90%. Moreover, local authorities would no longer, under the provisions of the Bill, reimburse the Department of Health and Social Security (DHSS) for the cost of payments made to tenants receiving Supplementary Benefit in lieu of rebates. When a house that has been sold would otherwise have been occupied by a tenant receiving rent rebate, the income foregone by the local authority is the rebated rent, plus rent rebate subsidy equal to 90% of the rebate. If at a future date it would have been let to a tenant in receipt of Supplementary Benefit, the income lost then is equal to the full un-rebated rent.

33. As noted, hardly any tenants exercising the right to buy are likely to be entitled to a rebate at the time they buy. Such evidence as there is about the age of sitting tenant purchasers (see Annex) suggests that in the typical instance the household head would have fifteen to twenty years ahead of him before retiring. But after retirement, circumstances change. Under the present rent rebate system a married couple paying rent of £8 a week could have £25 a week of other income (eg from an occupational pension, or invested savings) as well as a National Insurance retirement pension and still qualify for a £2 a week rebate. With an income of £13 a week over and above the National Insurance retirement pension a couple paying £8 a week rent would be entitled to a rebate equal to one-half the un-rebated rent. The evidence of the Family Expenditure Survey and the General Household Survey indicates that a substantial proportion (perhaps in the region of three-fifths) of householders that own their houses outright and have retired from employment would be eligible for rent rebates if they were tenants paying an average local authority rent. It is therefore reasonable to assume that the representative householder buying as a sitting tenant would have become entitled to a rent rebate on retirement

if he had remained a tenant. His surviving widow would also be likely to have been entitled to a rent rebate. The assumption is therefore made that for the first fifteen years no rebate would have been due; but in the next twenty years the purchaser, and then his widow, would have been entitled to a rent rebate had he remained a tenant. The rent rebate is taken to be one-half of the un-rebated rent (not the three-fifths maximum, to allow for occupational pensions and income from invested savings). Subsequently the house might be let to anybody. In 1979 about one-fifth of all tenants had rent rebates (excluding Supplementary Benefit tenants, from whom local authorities will under the provisions of the Bill receive unrebated rents without any offsetting reimbursement to DHSS). On average the ratio of rebate to un-rebated rent is probably about one-half; so the deduction for rebates in the last 15 years of a fifty year appraisal is taken to be one tenth of the standard rent.

34. Under the provisions of the Bill, 90% of rent rebates are met from rent rebate subsidy paid by the Exchequer; so the income foregone by the local authority is equal to the rent that would have been collected (ie net of any rebates) plus rent rebate subsidy equal to 90% of rebates granted.

35. Voids may next be considered, ie rent not collected because the dwelling is unoccupied. When a house is vacated otherwise than by arrangements well in advance, it is bound to be vacant for a time, eg while the personal representative of a deceased tenant removes the former tenant's effects. Moreover, many authorities re-decorate a house and carry out minor repairs in between tenants; and it takes time to find a fresh tenant, even with a first come first served letting system. These "turnover" voids, however, are unlikely to amount to very much in terms of length of time. Survey evidence indicates that the proportion of purpose-built local authority houses (ie excluding acquired dwellings that are vacant is about 1%. A 1% deduction from gross rents is therefore made for voids.

36. The present value of rent foregone by selling is shown in Table 4. The starting point is a standard rent of £8 a week, ie the 1979 average of £6.50 plus the announced guideline increase for 1980 of £1.50 a week. In Scotland, the equivalent starting point is a standard rent of about £6.40 a week. If Scottish rents continued at this relatively lower level, the present values of income foregone in Scotland would be lower than the figures in Table 4.

Table 4. Present Value of Rent Income Foregone by Selling

	Lower Inflation		Higher Inflation	
	Lower Earnings Growth	Higher Earnings Growth	Lower Earnings Growth	Higher Earnings Growth
Assumption about rate of increase of rentsTwenty Year Period.....			
Earnings	7,207	6,608	7,207	6,608
1959-79	7,083	6,390	7,083	6,390
1929-79	6,841	5,984	6,841	5,984
Prices	6,607	5,614	6,607	5,614
1969-79	6,487	5,528	6,390	5,443
1974-79	6,081	5,200	5,528	4,768
Fifty Year Period.....			
Earnings	15,808	12,620	15,808	12,620
1959-79	15,160	11,621	15,160	11,621
1929-79	13,801	9,943	13,801	9,943
Prices	12,620	8,615	12,620	8,615
1969-79	12,077	8,347	11,621	8,075
1974-79	10,305	7,354	8,347	6,336

Notes: Figures are shown to whole numbers to avoid rounding errors accumulating. As rents are received throughout the year, the discount factors used are the means of those that would be applicable if payment were made at the start of the year and the end of the year.

37. The present values of rent rebate subsidy foregone are shown in Table 5.

Table 5. Present Value of Rent Rebate Subsidy Foregone by Selling

	Lower Inflation		Higher Inflation	
	Lower Earnings Growth	Higher Earnings Growth	Lower Earnings Growth	Higher Earnings Growth
Assumption about rate of increase of rentsTwenty Year Period.....			
Earnings	936	783	936	783
1959-79	904	729	904	729
1929-79	841	634	841	634
Prices	783	550	783	550
1969-79	767	532	729	514
1974-79	655	463	532	377

Table 5. Continued

Fifty Year Period			
Earnings	4,306	3,276	4,306	3,276
1959-79	4,080	2,948	4,080	2,948
1929-79	3,654	2,391	3,654	2,391
Prices	3,276	1,946	3,276	1,946
1969-79	3,151	1,853	2,948	1,762
1974-79	2,515	1,518	1,853	1,229

(iii) Expenditure on Upkeep and Management That the Local Authority Saves

38 Direct evidence has never been collected about the savings in expenditure on upkeep and management that local authorities have achieved as a result of selling council houses. For an individual local authority to do this it would need very detailed records of work done, and the costs. Comparisons between authorities, particularly those that sold houses in 1971-73 and those that did not, could show the effect of sales only if "other things remained equal", or could be allowed for. Studies of expenditure on upkeep and management of local authority houses have found that only part of the variation of expenditure per dwelling between authorities can be explained by measurable factors (eg the proportion of flats), which means that identifying the effect of sales would be very difficult indeed. Comparisons over time, which if they could be done might show how quickly the savings come through, are made virtually impossible by the break in the figures caused by local government reorganisation in 1974. So recourse must be had to inference, deduction, and assumption in the absence of direct evidence.

39. The estimate required is of the amounts that local authorities would save by selling houses, which is a considerably more complicated matter than just taking average expenditure per dwelling in the stock, locally or nationally. Management and maintenance can best be considered separately.

40. Management comprises "special" and "general" supervision and management. "Special" supervision and management comprises costs of such services to tenants as central heating, lighting and cleaning of common parts, lifts, wardens for 'sheltered' accommodation, and caretaking. Central heating when provided by the council is charged for separately; the charges are accounted for on the income side of the account, the costs on the outgoings side. Where central heating was still provided after sale, there would be an offsetting receipt, as before. Services of wardens are irrelevant to houses that might be sold. Lighting and cleaning of common parts, and lifts are relevant only to flats. In assessing likely savings, "special" supervision and management can probably be set aside without introducing serious error. "General" supervision and management is the cost of management in the ordinary sense, including rent collection and accounting, recovery of arrears, dealing with applications for tenancies and making lettings. The question here is how much of these costs are overhead costs that would be reduced in proportion to a reduction in the number of dwellings being managed. Some savings there would clearly be; fewer rents to collect means less rent accounting to do and less expenditure on postages and bank charges. But unless the sales were a large proportion of the stock, the saving would be unlikely to be proportional, except in the long run. Savings would take time to realise, for reorganisation could hardly take place at once. Note has also to be taken of

the fact that the national average of expenditure on "general" supervision and management is pulled up by the high expenditure of the inner London boroughs, where the proportion of flats is high. For England as a whole average expenditure per dwelling in 1977/78 was £36.7; excluding London £31.4 (Housing and Construction Statistics No 28, Table XVII). Variant assumptions are therefore made. The first is that savings will start at 10% of average expenditure on "general" supervision and management and build up to 50% after 5 years; the second is that the savings start at 20% and build up to 75% after 5 years; the third is the upper boundary, a pro-rata saving.

41. Repair costs are also partly overhead costs, in the short term. A local authority has to have an organisation to get repairs done, whether by directly employed labour or private contractors. To start with, a small reduction in the number of houses to be dealt with may well result not in a reduction in expenditure, but in other tenants getting a slightly quicker service when they need repairs. In time, adjustments can be made; but they will not be instantaneous. If, for example, external repainting is done every five years (a very common arrangement), some of the houses sold might not be due for re-painting for another four years, so not until then would the full saving result. A further point is that flats appear to be considerably more expensive to maintain than are houses. The difference has not been measured with precision, but there are indications of a difference of as much as 3:1 as between high rise flats and houses and maisonettes. About 5% of the local authority housing stock consists of high rise flats. So the average of expenditure of £94 per dwelling on repair and maintenance in 1977/78 probably an average of about £85 per house. About two thirds of the cost of repair work is thought to consist of labour, one third materials. As with supervision and management, variant assumptions are made about savings of expenditure on repair and maintenance. The first is that the savings start at one third of the average (the cost of materials) and build up over 5 years to 75%; the second is that savings start at two-fifths of the average and build up over 5 years to a full, pro-rata saving; the third (likewise an upper boundary) is that the full pro-rata savings start straight away.

42. Repair work and management are both labour-intensive services, and even with gains in efficiency some rise in unit costs relative to the general price level can be expected. This rise is taken to be half of the annual increase in real earnings. The present values are shown in Table 6. The present value is not affected by whether the higher or the lower inflation assumptions are used, because the difference in inflation is offset by the difference in the rate of interest used to discount to present value. But earnings growth makes a difference to the rise in unit cost relative to the general price level.

Table 6. Present Value of Savings in Costs of Upkeep and Management

	Lower Earnings Growth		Higher Earnings Growth	
	20 years	50 years	20 years	50 years
Low variant (a)	1,908	4,712	1,603	3,225
Second variant (b)	2,574	6,359	2,160	4,359
Upper variant (c)	3,084	7,169	2,655	5,103

Notes: (a) 'Low variant' is that savings comprise 10% of average 'general' management expenditure building up to 50% after 5 years; and 33 percent of repairs expenditure, building up to 75% after 5 years.

(b) 'Second variant' is 20% of 'general' supervision and management at outset, building up to 75% after 5 years; and 40% of repairs expenditure, building up to 100% after 5 years.

(c) 'Upper variant' is pro-rata saving throughout.

Figures in the table are at 1980/81 prices, assumed to be 40% higher than in 1977/78.

43. It is important to recall that, for reasons discussed in paragraph 38 above, the figures in Table 6 are founded on hypotheses only. They may therefore be superseded by direct evidence about the speed with which savings come through; and of course it is not to be expected that the savings in these costs will be realised at the same rate everywhere.

44. There are, however, administrative costs of selling council houses. The amount and duration will depend on whether the purchase is financed by a mortgage from the disposing authority, or whether the finance comes from external sources (eg a building society, or the purchaser's own savings). Where there is no local authority mortgage the administrative costs of the sale are once-and-for-all, but where a local authority mortgage finances the sale, there is a continuing cost of administering the mortgage account. Local authorities will, however, be entitled to add $\frac{1}{4}$ percent for administrative costs to their pool rate when determining the rate of interest to charge on mortgages. They will also be able to charge the purchaser for such costs as surveys. Rather than put in such fees and the present value of the $\frac{1}{4}$ percent on the income side and the costs of selling and mortgage administration on the outgoings side, the two are taken to be mutually offsetting, and are therefore netted out and excluded.

(iv) Expenditure on Renovation Avoided by Selling

45. Renovation by local authorities of their purpose built houses has become an increasingly important part of their capital expenditure. The amount of information collected about it is, however, very limited. The total number of houses and flats improved is known, so too is average cost. But it is generally not possible to distinguish between purpose built and acquired houses, still less between the different "vintages" of the houses in the purpose built stock. The average cost per dwelling of improvement work completed in 1978 on dwellings owned by local authorities was £3,200. Separate figures are not available for improvement of purpose built dwellings. It is these improvements that are most relevant to an appraisal of the effects of selling council houses, for most of the houses sold are likely to be purpose built. Since the cost is in general rather lower than the cost of improvement to acquired dwellings, the figure just cited is probably rather higher than that for purpose built houses only.

46. In the decade 1969-78 (inclusive) the number of local authority owned dwellings improved was 540,000. If acquired dwellings are excluded, the total would be about 450,000 (approximately), about 9 percent of the local authorities' purpose built stock.

47. To estimate the amount of expenditure on renovation that a local authority avoids as a result of selling council houses, assumptions are required about the amount that would have been spent, and when. The answers are likely to depend partly on policy (how much public expenditure can be made available for up-grading local authority houses) partly on technical developments, and partly (perhaps) about how much tenants are prepared to pay. Again, all that can be done is to make assumptions. One assumption is that the amount spent on each purpose built house renovated would remain as now (rather under £3,000 at 1978 prices, say £3,500 - approximately - at 1980 prices). An alternative is that it would increase as more modern houses are improved, with more complex improvements than installing a bathroom or modernising a 1930's kitchen. Moreover rising standards might well be demanded and provided; so an upper figure of £5,500 might be taken. How distant in time the renovation would be must also be considered. At the 1969-78 average rate, just over one-half of the houses in the present stock not yet renovated would have been renovated by the end of fifty years, which would put the renovation of the 'representative' house between 40 and 50 years away. But local authorities' housing investment programme (HIP) bids show an increasing concern for the renovation of their present stock, so 1969-78 experience is likely to under-estimate the probability of an individual house being renovated in the future. So it is reasonable to take an alternatives renovation after 15 and 30 years. Provision must also be made for the probability (though not certainty)

that the unit cost of improvement work will rise relative to the general price level owing to limited scope for productivity growth. Unit costs are therefore taken to rise at a rate half way between the rise in the general price level and the rise in earnings, in the same way as the costs of repair work.

Table 7. Present Value of Costs of Renovation Avoided by Selling

	Lower Earnings Growth	Higher Earnings Growth
<u>Renovation takes place</u>		
15 years hence	3,208/5,104	2,601/4,087
30 years hence	3,014/4,736	1,932/3,037

(v) Exchequer Subsidy Withdrawn as a Consequence of Sale

48. Rent rebate subsidy paid by the Exchequer to local authorities was discussed in paragraphs 32-33 above, and estimates of the amount shown in Table 5. The effect that sale has on rent rebate subsidy depends, of course, on when and for how long the house would have been let at a rebated rent if it had not been sold. Subsidy is also withdrawn when the house is sold. Apart from new capital cost element payable under the Housing Rents and Subsidies Act 1975, individually identifiable amounts of subsidy have not been paid in respect of individual dwellings since the Housing Finance Act 1972 took effect. In/ ^{England and Wales the} Bill provides for consolidation of the 1975 Act subsidies along with the other subsidies, so withdrawal of subsidy as a consequence of sale cannot be made on the basis of identifiable subsidies in payment for the houses sold. The amount of subsidy withdrawn has therefore to be determined by means of a formula. Estimating the effect is difficult, however, both on account of the subsidy system itself and because important details of the system are still the subject of consultation. Subsidy will be payable by reference to the deficit shown in a notional account, so sales will influence subsidy by the consequent effects on amounts deemed to be debited or credited to this account. Loan charges debited will be reduced, under the Government's proposals, by an amount equal to loan charges on the historic cost of the house sold plus one-half of the excess of historic cost over sale price. The average historic cost of the whole stock is probably about £4,500; so with a disposal price of £8,400, loan charges on £4,500 minus $\frac{1}{2}(\text{£8,400 minus } \text{£4,500}) = \text{£6,450}$ would be withdrawn. The assumed method of determining the amount of expenditure on management and maintenance debited to the notional account (a per dwelling sum times the number of houses in the local authority's housing revenue account) would result in a pro-rata reduction in those costs being assumed for purposes of subsidy. The approximate effect on the notional account would be:

Income	Outgoings
Reduced by rent of the house sold (£416 in first year, but rising)	Reduced by loan charges on £6,450 (£774 at 12%) Reduced by average expenditure on upkeep and management (£160 in first year - more if "special" supervision and management included)

Balance £518 withdrawn in first year.

The figure shown is no more than tentative, as several important aspects are still the subject of consultation and consideration. In Scotland, the subsidy consequences have to be determined in the light of the provision of the 1978 Act. The general effect will be that loan charges will be reduced following the sale of a house by the amount attributable to the price paid, and the aggregate of housing support grant, if nothing else changes, will be reduced accordingly.

49. What would happen in subsequent years would depend on the course of rents, interest rates, and the "local contribution". With so many variables, what would happen is hard to assess, not least because with most of the sets of assumptions (see paragraph 23) a fall from the 1980/81 interest rates would occur. To project the paths would be impossible. So what is done is to take the 12% interest rate assumption, and work out the year by year sequence. Such a calculation, however, gives the amount of subsidy withdrawn when the notional account as a whole is in deficit so that subsidy is paid. When subsidy is not payable to an authority because the "local contribution" exceeds reckonable outgoings, withdrawal of subsidy has no effect. Whether or when subsidy will cease to be payable will vary from one authority to another, according to the amount of loan charges generated by capital expenditure, other outgoings, and the amount of subsidy at the outset. No single calculation can be representative for all authorities. A period of 20 years is taken, to reflect a combination of the circumstances of local authorities with small capital programmes in relation to their resources, and other authorities of which the opposite is true. The length of time that will elapse before the reduction in the "local contribution" resulting from a sale exceeds the reduction in loan charges and in costs of upkeep and management (which is the length of time for which subsidy is reduced by selling, provided always that the authority is in receipt of subsidy) depends on the rate or rise of the local contribution. Separate estimates of the present value of the subsidy withdrawn (Table 8) are therefore required for each assumption about the rate of rise of rents (taken to be determined by the rate of rise of the local contribution). The slower the rate of rise of rents the slower the diminution of the effect on subsidy and the longer the effect lasts.

Table 8. Present Value of Subsidy Withdrawn

Rate of rise of rents

With earnings	£2,127
1959-79	£2,196
1929-79	£2,344
With prices	£2,533
1969-79	£2,640
1974-79	£3,294

Notes: (i) See paragraph 30 for details of the rent assumptions

(ii) The figures above are calculated on the basis of Exchequer subsidy being equal to 100% of the notional deficit. But this assumption is not, of course, a statement of policy.

The Cost of Replacement Building

50. Selling a council house to a sitting tenant affects the number of new tenants that can be provided for only at the time when the purchaser would have left local authority housing altogether. A transfer or exchange within the local authority stock would not release a house for letting to a new tenant. So the question relevant here is not 'how long would elapse before the purchaser moved' but 'how long before the purchaser would have left local authority housing altogether, if he had remained a tenant'. Such information as is available that is relevant to this question is assembled in the Annex and indicates that in the representative instance (though not, of course, in each and every instance) very many years would elapse before the householder, and his widow, would have left. For few households that buy as sitting tenants would be likely to otherwise move away; nearly all would have remained local authority tenants for the rest of their lives, or until they had to go and live with relatives, or in a home for the elderly. Given that most married men are survived by their widows, who normally succeed to the tenancy, some 30-40 years would typically elapse before there is an effect on the number of houses vacant and available for letting to new tenants.

51. If the distance is anything like as great as that, then whether there will be a consequential effect on the need for new building becomes very doubtful. In England there are already 30 percent of all households renting from public landlords, a higher proportion than in any other Western European country. In Scotland, the proportion is more than one half. Whether this will still need to be so in fifty years on is very doubtful. So no provision is made in this appraisal for replacement building.

(vii) Residual Value of the Site

52. The long physical life of houses, and the probability that most of the houses that sitting tenants would buy would be unlikely to go out of use before the end of their physical lives, means that the value of the site could not be realised until well beyond 50 years. What would be the demand for such sites that far away (in the middle of the twenty-first century) is considered too uncertain and too distant to quantify.

The Constituent Items of the Local Authority Appraisal Drawn Together

53. The time periods and reasons for selecting them were discussed in the introduction:

- (a) First year
- (b) First eight years (not discounted)
- (c) Twenty years
- (d) Fifty years

First Year

54. First year financial effects do not depend on subsequent increases in rents or on the future build up of savings or costs of upkeep and management, nor are they affected by assumptions about interest rates that "take one year with another"; only interest rates in the year of disposal are relevant. The proportion of the purchase money paid in cash (ie private sector mortgages or the purchaser's own savings), however, has a very great effect. The proportion has varied from year to year, but recently has been in the region of 30%, 27.2% in 1977, 32.4% in 1978 and 30.1% in the first half of 1979 (Housing and Construction Statistics No 30, Table 41). The assumption is therefore made that 30% of the purchase money is paid in cash (perhaps partly borrowed from other lenders). On the remaining 70%, interest at 12 $\frac{1}{2}$ % is received.

Table 9. Financial Flows in the First Year

Part of purchase price received in cash	+2,520
Mortgage interest	+735
Saving on costs of management and upkeep (a)	+43/56/160
Rent foregone	-416
Subsidy withdrawn	-518
<u>Balance</u>	<u>+2,364/2,481</u>

Note: (a) The range in the balance is between the sum of smallest pluses/largest minuses and the sum of the largest pluses/smallest minuses.

Early Years (First Eight)

55. To show what might happen in the years immediately following disposal, a constructed example is taken of a house sold in 1970/71. Figures collected by IMTA (subsequently CIPFA). Rents are actual average rents; savings on upkeep and management are on the assumption of a five year build up to 50% of management and 75% of management expenditure (see paragraph 40 and 41). Interest on the disposal proceeds are at the pool rate for the year, as interest charges is generally linked to pool rates. The subsidy withdrawn is taken as £8 (Housing Act 1961), though a wide range of subsidies were in payment in 1970/71; which would be relevant would depend on when the house was built. This withdrawal of subsidy would have been carried forward by the consolidation by the Housing Finance Act 1972 of subsidies payable under earlier Acts into "residual subsidy"; and then through the consolidation by the Housing Rents and Subsidies Act 1975 of subsidies in payment under the 1972 Act into "basic element". Table 10 is on the same basis as Table 9 in being a "cash flow" table, and in assuming 30% of the price to have been paid in cash at the outset.

Table 10. Example of Financial Effects: 1970/71 to 1978/79

	Receipts of principal and interest	Savings on upkeep and management	Subsidy	Rent	Balance
1970/71	+1,034	+8	-8	-120	+914
1971/72	+169	+12	-8	-129	+44
1972/73	+169	+17	-8	-143	+35
1973/74	+187	+22	-8	-186	+15
1974/75	+209	+37	-8	-197	+41
1975/76	+213	+58	-8	-223	+40
1976/77	+224	+67	-8	-255	+28
1977/78	+225	+80	-8	-290	+7
1978/79	+228	+90	-8	-307	+3

Twenty Year and Fifty Year Appraisals

56. Tables 11 and 12 show (respectively) the appraisals for a twenty and a fifty year period. The ranges shown for the balance are the ranges between the sum of the smallest pluses/largest minuses, and the sum of the largest pluses/smallest minuses.

Table 11. Twenty Year Appraisal: Local Authority

	<u>Lower Earnings Growth</u>						<u>Higher Earnings Growth</u>					
 Rise in Rents Rise in Rents					
	With earnings	1959-79	1929-79	With prices	1969-79	1974-79	With earnings	1959-79	1929-79	With prices	1969-79	1974-79
Sale price	+8,400	+8,400	+8,400	+8,400	+8,400	+8,400	+8,400	+8,400	+8,400	+8,400	+8,400	+8,400
Rents foregone (*)	-7,207	-7,083	-6,841	-6,607	-6,487/ -6,390	-6,081/ -5,528	-6,608	-6,608	-5,984	-5,614	-5,528/ -5,443	-5,200/ -4,768
Rent rebate subsidy foregone (*)	-936	-904	-841	-783	-767/ 729	-655/ 532	-783	-729	-634	-550	-532/ 514	-463/ 377
Savings in cost of upkeep and management	+1,908/ 3,084	+1,908 3,084	+1,908 3,084	+1,908 3,084	+1,908 3,084	+1,908 3,084	+1,603 2,655	+1,603 2,655	+1,603 2,655	+1,603 2,655	+1,603/ 2,655	+1,603/ 2,655
Renovation costs avoided	0/+3,208	0/+3,208	0/+3,208	0/+3,208	0/+3,208	0/+3,208	0/+2,601	0/+2,601	0/+2,601	0/+2,601	0/+2,601	0/+2,601
Subsidy withdrawn	-2,127	-2,196	-2,344	-2,533	-2,640	-3,294	-2,127	-2,196	-2,344	-2,533	-2,640	-3,294
<u>Balance</u>	+38/ +4,422	+125/ +4,509	+282/ +4,666	+385/ +4,769	+414/ +4,933	+278/ +5,338	+485/ +4,138	+688/ +4,341	+1,041/ +4,694	+1,306/ +4,959	+1,303/ +5,059	+1,046/ +5,217

Note: (*) Two values are shown because in these two cases, the rise in rents is linked to prices, not real earnings, and so are different according to whether the higher or the lower inflation assumption is taken.

Table 12. Fifty Year Appraisal: Local Authority

	<u>Lower Earnings Growth</u>						<u>Higher Earnings Growth</u>					
	Rise in Rents						Rise in Rents					
	With earnings	1959-79	1929-79	With prices	1969-79	1974/79	With earnings	1959-79	1929-79	With prices	1969-79	1974-79
Sale price	+8,400	+8,400	+8,400	+8,400	+8,400	+8,400	+8,400	+8,400	+8,400	+8,400	+8,400	+8,400
Rents foregone (*)	-15,808	-15,160	-13,801	-12,620	-12,077/ -11,621	-10,305/ -8,347	-12,620	-11,621	-9,943	-8,615	-8,347/ -8,075	-7,354/ -6,336
Rent rebate subsidy foregone (*)	-4,306	-4,080	-3,654	-3,276	-3,151/ -2,948	-2,515/ -1,853	-3,276	-2,948	-2,391	-1,946	-1,853/ -1,762	-1,518/ -1,229
Savings in cost of upkeep and management	+4,712/ +7,169	+4,712/ +7,169	+4,712/ +7,169	+4,712/ +7,169	+4,712/ +7,169	+4,712/ +7,169	+3,225/ +5,103	+3,225/ +5,103	+3,225/ +5,103	+3,225/ +5,103	+3,225/ +5,103	+3,225/ +5,103
Renovation costs avoided	+3,014/ +5,104	+3,014/ +5,104	+3,014/ +5,104	+3,014/ +5,104	+3,014/ +5,104	+3,014/ +5,104	+1,932/ +4,087	+1,932/ +4,087	+1,932/ +4,087	+1,932/ +4,087	+1,932/ +4,087	+1,932/ +4,087
Subsidy withdrawn	-2,127	-2,196	-2,344	-2,533	-2,640	-3,294	-2,127	-2,196	-2,344	-2,533	-2,640	-3,294
<u>Balance</u>	-6,115/ -1,568	-5,310/ -763	-3,673/ +874	-2,303/ +2,244	-1,742/ +3,464	+12/ +7,179	-4,466/ -433	-3,208/ +825	-1,121/ +2,912	+463/ +4,496	+717/ +5,113	+1,391/ +6,731

Note: (*) See note to Table 11.

PART FIVE

Appraisal From the Standpoint of the Local Authority and Central Government Taken Together

57. The elements of this appraisal were set out in paragraph 15, namely (i) the net gain or loss to the local authority plus (ii) the subsidy discontinued as a consequence of sale less (iii) the present value of the tax relief on mortgage interest, or option mortgage subsidy. Of these, (i) was shown in Tables 8, 9, 10 and 11 above; (ii) is the subsidy element in those calculations; but (iii) must be estimated specially. How different is the balance for central government and local authorities taken together from the balance for the local authority alone depends on whether the cost of tax relief exceeds, in present value terms, and the subsidy withdrawn and the rent rebate subsidy foregone.

58. The amount of tax relief depends on the ratio of mortgage advance to purchase price as well as on the purchase price itself. Provision will be made for 100% mortgages where needed but such evidence as is available (see Housing Policy Technical Volume, Chapter 6, paragraphs 65-66) indicates that for the most part house purchasers do not mortgage themselves more heavily than they have to, so that it is reasonable to assume that purchasers with sufficient savings to enable them to complete the purchase with only a 80% or 90% mortgage will generally do so, even though a 100% mortgage was obtainable. The average ratio of advance to price for first time purchasers from building societies is usually in the region of 80%; the median ratio is, however, about 90%. There have been instances reported of local authority tenants buying their houses and paying wholly or mainly from their own savings; but in an appraisal relating to the representative case, the building society median ratio (90%) may reasonably be used, though 80% may usefully be shown as an alternative. These percentages refer, of course, only to the sale to the sitting tenant; what happens when the house is re-sold is not affected.

59. What provision to make for tax relief on interest on subsequent mortgages on the same house is a very difficult question. When houses bought by sitting tenants are re-sold, the transaction is on the open market, and is in no way special. The analytical point, however, is that the amount of tax relief to bring to account that on the interest on the extra mortgage debt that is in the system as a result of the house having been sold to the sitting tenant. If when the house is re-sold, the additional second-hand house on the market reduces the demand for new houses, then the effect of the sale of a council house on the size of the owner-occupied stock and on mortgage indebtedness is limited to the mortgage that finances the first sale. If the increase in the owner-occupied housing stock (relative to what would have happened if the sale had not taken place) is

permanent, then interest on mortgages financing subsequent sales, and the tax relief on it, has to be brought to account. The reasoning in paragraphs 51-52 (about replacement building) implies that the effect on home ownership is likely to be permanent; so the estimate of the cost of tax relief is made on that basis.

60. The tax relief calculations also depend, of course, on assumptions about the basic rate of income tax. The assumption used is the present rate of 30%. Not many households able to afford house purchase would be paying tax at the 25% reduced rate; and it is unlikely that many would be paying tax at rates above the basic rate. A reduction in income tax rates would reduce the cost of tax relief; if the basic rate were 25%, for example, the present values of tax relief would be one-sixth lower than shown in Table 13.

61. The historical evidence about the rate of rise of house prices in relation to incomes and the general price level points to the trend rate of rise of house prices being between the rise in incomes and the rise in the general price level, though nearer the former than the latter. Accordingly, the assumption is made that a 1% a year rise in real incomes is accompanied by a $\frac{3}{4}$ % a year rise in house prices (relative to the general price level); and that a 2% a year rise in real incomes is accompanied by a $1\frac{1}{2}$ % a year rise in house prices in real terms.

62. As well as the rise in house prices, assumptions are also required about when the house is re-sold (and a fresh mortgage starts) and for what length of time the house is owned outright. The average life of a building society mortgage is between 6 and 7 years; but the frequency with which owner-occupiers move house is much less than once every 6-7 years. The Department of the Environment's Movers Survey suggests that for owner-occupiers aged 45-69 the average annual rate of movement in 1967 was between 3.5 and 4 percent; the same source suggests 8-8.5% for owner-occupiers under age 45; and for all owner-occupiers taken together (including those aged 70 and over, who move very infrequently), 5.2%. So one assumption about the sitting tenant purchaser is that he stays where he is and pays off the mortgage; and that the house does not come onto the market until after the death of his widow, 30-40 years hence. It is then re-sold. An alternative may be taken of the house being re-sold after 10 years, then again after 30 years. Over two-fifths of owner-occupied houses are owned outright (though the proportion is falling slowly), so the house should not be assumed to be mortgaged all the time. Any assumptions have to be no more than illustrative but the following are taken. In the first example (A) the house is owned on mortgage for 25 years, then owned outright for 15. It is sold at the end of year 40, on a 65% mortgage (the average for all transactions) and owned on mortgage for the rest of the period (ie 10 years). In the alternative, example (B) the house is owned on mortgage for 10 years; sold at the end of year 10 and owned on mortgage for 12 years outright for 8; at the end of year 30 it is sold again, and owned mortgaged for 12 years and outright for 8. The present value of tax

relief (at 30%) are shown in Table 13; there are two values (A) and (B) for each of the four interest rates specified in paragraph 24 (plus $\frac{1}{4}\%$ over pool rate for cost of administration). The tax relief does not of course depend on whether the mortgage is raised from the local authority or from another source.

Table 13. Present Value of Tax Relief

	20 Years		50 Years	
	Initial Mortgage 80%	Initial Mortgage 90%	Initial Mortgage 80%	Initial Mortgage 90%
Interest rate and re-sale assumptions				
5% Assumption A	1,038	1,167	1,920	2,054
Assumption B	1,723	1,816	2,888	2,981
7% Assumption A	1,291	1,453	2,063	2,229
Assumption B	2,077	2,196	3,139	3,258
10% Assumption A	1,564	1,759	3,108	3,308
Assumption B	2,813	2,965	4,647	4,798
12% Assumption A	1,692	1,903	2,785	3,001
Assumption B	2,943	3,112	4,403	4,572

63. The figures in Table 13 reflect the inter-acting effects of higher mortgage rates which increase mortgage outgoings (and hence tax relief) at the outset, and of higher discount rates that cut down the present value of tax relief in more distant years. The present value of the tax relief is very sensitive to how frequently the house is re-sold, and when re-sale takes place. Such re-sales are not, of course, inconsistent with the purchaser being unlikely to have left the local authority sector during his lifetime if he had remained a tenant; selling and moving within the owner-occupied sector correspond in this respect to transfers and exchanges within the local authority sector.

64. Comparisons may now be made for the local authority and central government combined. Table 14 shows the first year cash flow comparison:

Table 14. First Year Cash Flow Comparisons

Local authority balance	+2,364/+2,481
Subsidy saving to central government	+518
Tax relief (a)	-278
<u>Combined balance</u>	+2,604/+2,721

Notes (a) 90% mortgage assumed, at $12\frac{1}{4}\%$ interest

65. The eight year comparison is shown in Table 15. To estimate tax relief, the mortgage rate paid by the purchaser, on which he gets his tax relief is taken to be equal to the pool rate plus $\frac{1}{4}\%$. The purchaser is taken to get tax relief at the basic rate (standard rate less earned income relief before 1973/74). The amount of relief, at any given interest rate, drops slowly as more of the instalments consist of principal. When interest rates rose, mortgage payments are assumed to have been increased.

Table 15. Example of Financial Effects: 1970/71 to 1978/79: Central and Local Government Combined

	Local authority balance	Subsidy withdrawn	Tax	Combined balance
1970/71	+914	+8	-58	+864
1971/72	+44	+8	-54	-2
1972/73	+35	+8	-53	-10
1973/74	+15	+8	-61	-38
1974/75	+41	+8	-78	-29
1975/76	+40	+8	-83	-35
1976/77	+28	+8	-88	-52
1977/78	+7	+8	-82	-67
1978/79	+3	+8	-79	-68

66. Tables 16 and 17 show the 20 and 50 year comparisons.

Table 16. Twenty Year Appraisal: Local Authority and Central Government Combined

	Local authority balance	Subsidy Withdrawn	Rent rebate subsidy	Tax relief	Combined balance
<u>4% Inflation, 5% Rise in Earnings, 5% Interest</u>					
Rents rise with earnings	+38/+4,422	+2,127	+936	-1,038/-1,816	+1,285/+6,447
Rents rise as in 1959-79	+125/+4,509	+2,196	+904	-1,038/-1,816	+1,409/+6,571
Rents rise as in 1929-79	+282/+4,666	+2,344	+841	-1,038/-1,816	+1,651/+6,813
Rents rise with prices	+385/+4,769	+2,533	+783	-1,038/-1,816	+1,885/+7,047
Rents rise as in 1969-79	+414/+4,798	+2,640	+767	-1,038/-1,816	+2,005/+7,167
Rents rise as in 1974-79	+278/+4,662	+3,294	+655	-1,038/-1,816	+2,411/+7,573
<u>4% Inflation, 6% Rise in Earnings, 7% Interest</u>					
Rents rise with earnings	+485/+4,138	+2,127	+783	-1,291/-2,196	+1,199/+5,757
Rents rise as in 1959-79	+688/+4,341	+2,196	+729	-1,291/-2,196	+1,417/+5,975
Rents rise as in 1929-79	+1,041/+4,694	+2,344	+634	-1,291/-2,196	+1,823/+6,381
Rents rise with prices	+1,306/+4,959	+2,533	+550	-1,291/-2,196	+2,193/+6,751
Rents rise as in 1969-79	+1,303/+4,956	+2,640	+532	-1,291/-2,196	+2,279/+6,837
Rents rise as in 1974-79	+1,046/+4,699	+3,294	+463	-1,291/-2,196	+2,607/+7,165
<u>9% Inflation, 10% Rise in Earnings, 10% Interest</u>					
Rents rise with earnings	+38/+4,422	+2,127	+936	-1,564/-2,965	+136/+5,921
Rents rise as in 1959-79	+125/+4,509	+2,196	+904	-1,564/-2,965	+260/+6,045
Rents rise as in 1929-79	+282/+4,666	+2,344	+841	-1,564/-2,965	+502/+6,287
Rents rise with prices	+385/+4,769	+2,533	+782	-1,564/-2,965	+736/+6,521
Rents rise as in 1969-79	+549/+4,933	+2,600	+729	-1,564/-2,965	+953/+6,738
Rents rise as in 1974-79	+954/+5,338	+3,294	+532	-1,564/-2,965	+1,815/+7,600

Table 16. Continued

	Local authority balance	Subsidy Withdrawn	Rent rebate subsidy	Tax relief	Combined balance
<u>9% Inflation, 11% Rise in Earnings, 12% Interest</u>					
Rents rise with earnings	+485/+4,138	+2,127	+783	-1,692/-3,112	+283/+5,356
Rents rise as in 1959-79	+688/+4,341	+2,196	+729	-1,692/-3,112	+501/+5,574
Rents rise as in 1929-79	+1,041/+4,694	+2,344	+634	-1,692/-3,112	+907/+5,980
Rents rise with prices	+1,306/+4,959	+2,533	+550	-1,692/-3,112	+1,278/+6,350
Rents rise as in 1969-79	+1,406/+5,059	+2,640	+514	-1,692/-3,112	+1,448/+6,521
Rents rise as in 1974-79	+1,564/+5,217	+3,294	+377	-1,692/-3,112	+2,123/+7,196

Table 17. Fifty Year Appraisal: Local Authority and Central Government Combined

	Local authority balance	Subsidy Withdrawn	Rent rebate subsidy	Tax relief	Combined balance
<u>4% Inflation, 5% Rise in Earnings, 5% Interest</u>					
Rents rise with earnings	-6,115/-1,568	+2,127	+4,306	-1,920/-2,981	-2,663/+2,945
Rents rise as in 1959-79	-5,310/-763	+2,196	+4,080	-1,920/-2,981	-2,015/+3,593
Rents rise as in 1929-79	-3,673/+874	+2,344	+3,654	-1,920/-2,981	-656/+4,952
Rents rise with prices	-2,303/+2,244	+2,533	+3,276	-1,920/-2,981	+525/+6,133
Rents rise as in 1969-79	-1,742/+2,805	+2,640	+3,151	-1,920/-2,981	+1,068/+6,676
Rents rise as in 1974-79	+12/+4,559	+3,294	+2,515	-1,920/-2,981	+2,840/+8,448
<u>4% Inflation, 6% Rise in Earnings, 7% Interest</u>					
Rents rise with earnings	-4,466/-433	+2,127	+3,276	-2,063/-3,258	-2,321/+2,907
Rents rise as in 1959-79	-3,208/+825	+2,196	+2,948	-2,063/-3,258	-1,322/+3,906
Rents rise as in 1929-79	-1,121/+2,912	+2,344	+2,391	-2,063/-3,258	+356/+5,584
Rents rise with prices	+463/+4,496	+2,533	+1,946	-2,063/-3,258	+1,684/+6,912
Rents rise as in 1969-79	+717/+4,750	+2,640	+1,853	-2,063/-3,258	+1,952/+7,180
Rents rise as in 1974-79	+1,391/+5,424	+3,294	+1,518	-2,063/-3,258	+2,945/+8,173
<u>9% Inflation, 10% Rise in Earnings, 10% Interest</u>					
Rents rise with earnings	-6,115/-1,568	+2,127	+4,306	-3,108/-4,798	-4,480/+1,757
Rents rise as in 1959-79	-5,310/-763	+2,196	+4,080	-3,108/-4,798	-3,832/+2,405
Rents rise as in 1929-79	-3,673/+874	+2,344	+3,654	-3,108/-4,798	-2,473/+3,764
Rents rise with prices	-2,303/+2,244	+2,532	+3,276	-3,108/-4,798	-1,292/+4,945
Rents rise as in 1969-79	-1,083/+3,464	+2,640	+2,948	-3,108/-4,798	-293/+5,944
Rents rise as in 1974-79	+2,632/+7,179	+3,294	+1,853	-3,108/-4,798	+2,981/+9,218

Table 17 (Continued)

	Local authority balance	Subsidy withdrawn	Rent rebate subsidy	Tax relief	Combined balance
<u>9% Inflation, 11% Rise in Earnings, 12% Interest</u>					
Rents rise with earnings	-4,466/-433	+2,127	+3,276	-2,785/-4,572	-3,635/+2,185
Rents rise as in 1959-79	-3,208/+825	+2,196	+2,948	-2,785/-4,572	-2,636/+3,184
Rents rise as in 1929-79	-1,121/+2,912	+2,344	+2,391	-2,785/-4,572	-958/+4,862
Rents rise with prices	+463/+4,496	+2,533	+1,946	-2,785/-4,572	+370/+6,190
Rents rise as in 1969-79	+1,080/+5,113	+2,640	+1,762	-2,785/-4,572	+910/+6,730
Rents rise as in 1974-79	+2,698/+6,731	+3,294	+1,229	-2,785/-4,572	+2,649/+8,469

EVIDENCE ABOUT THE EFFECTS OF SALES OF COUNCIL HOUSES TO SITTING TENANTS ON
THE NUMBER OF RE-LETS

1. The number of houses that would have become available for re-letting to new tenants but for sales to sitting ^{tenants} (and hence the effect of such sales on the number of new tenants that could be provided for) can only be estimated; it cannot be measured directly, even in principle. For what an individual householder who bought would have done if he had remained a tenant is undiscoverable. Only approximate estimates can be made; the purpose of this Annex is to bring together the available evidence.
2. What is being estimated is the effect on the number of new tenants that can be provided for, not (in this instance) the number of moves within the stock and hence the opportunities for households that are already tenants to transfer. When a house becomes vacant because the tenant has left the local authority sector altogether, the house is not necessarily let to a newcomer to the local authority sector; it may be let to a householder who is already a tenant but who wants a transfer. But if the house is re-let as a transfer, the re-letting will normally initiate a chain of moves analogous to chains of sales in the owner-occupied sector; at the end of the chain of moves is a new tenant.
3. The number of new tenants that can be accommodated depends on new building and on the number of departures. The effect of sales to sitting tenants on the number of new tenants who can be accommodated depends on the effect on the number of tenants departing from local authority accommodation. To estimate that effect, it is necessary to assess how soon and in what numbers those householders who buy, and only those who would have left the local authority sector if they had remained tenants.
4. The most recent year for which the number of households leaving the local authority sector can be estimated is 1977. The Re-Lets Enquiry for that year shows that in England 169,000 new tenants were accommodated, excluding those in new or newly acquired dwellings, or in dwellings vacated as by households already tenants who moved to new houses. There was as well an increase of 11,000 in the number of vacant dwellings (5,000 available for letting, 6,000 undergoing or awaiting repair or modernisation). The number of households leaving the sector altogether was thus 180,000 if none of the increase in vacant dwellings were new or newly acquired. Some may have been; so a range of 175,000-180,000 may be taken, ie 3.7%-3.8% of all dwellings in local authorities Housing Revenue Accounts.
5. The figures of 175-180,000 in total and 3.7-3.8% of the whole stock refer to departures from the local authority stock for all reasons. The reasons include:

- (a) Death
- (b) Going to live as a member of someone else's household
- (c) Going to live in an old people's home or similar
- (d) Moving away to buy an owner-occupied house
- (e) Moving away to a house rented from a private landlord, employer, or housing association
- (f) Emigration
- (g) Marriage or re-marriage that results in the matrimonial home being somewhere else

Of these (a), (b), and (c) may conveniently be termed "old age" re-lets; (d) and (e) "change of tenure" re-lets. Emigration is a distinct reason for departure; but marriage or re-marriage (eg a widow who is a local authority tenant who marries a widower who is an owner-occupier, and they make their home at his residence) is probably fairly rare as a reason for departure. The distinctions drawn are important in the present context because they show that the probability of an individual tenant leaving the local authority sector within a specified period of time is strongly influenced by his age. For a man aged 40, for example, the "old age" departures will not be relevant for many years.

6. Approximate estimates (which are provisional and subject to revision in the light of further work) are shown in Table 1.

Table 1. Departure (Including Dissolution) Of Households from the Local Authority Sector, England 1977

(a) Deaths		75,000
(b) Dissolution of households due to moves to live with another household	}	20,000
(c) Moves to old people's homes, etc		
(d) Moves to owner-occupation		50,000
(e) Moves to tenancies rented from private landlords, employers, housing associations		20,000
(f) and (g) Emigration, re-marriage, etc		10,000
<u>Total</u>		<u>175,000</u>

7. The "old age" departures take place (by definition) at the higher ages. A rough estimate is that of the households dissolved by death, two-thirds are men and women (mainly women, most of them widows) aged 75 and over. From what is known of the age of residents in old people's homes it is safe to conclude that a high proportion of the "old age" departures from local authority tenancies for reasons other than deaths are of householders aged 75 or over.

8. Evidence of the age of heads of households moving from local authority tenancies to owner-occupation is given by the DOE's Movers Survey (Table 2). Owing to sampling variation, the margins of uncertainty are considerable.

Table 2. Age of Heads of Households Moving From Local Authority Tenancies to Other Tenures: England 1977

Age	Moves to Owner-Occupation		Moves to Renting from Private Landlords, Employers, HA's	
	Number	Percent	Number	Percent
Under 30	14,000	28	7,000	34
30-44	24,000	48	3,000	17
45-59	10,000	19	5,000	26
60-69	2,000	4	3,000	13
70 or over	...	1	2,000	10
<u>Total</u>	50,000	100	20,000	100

Notes: The figures are shown to the nearest 1,000 to avoid rounding discrepancies, but are not as precise as that.

Source: DOE, Movers Survey

9. The movers to owner-occupation are heavily concentrated in the younger age ranges; some three quarters were under age 45. Mortgage statistics (the DOE/BSA building society mortgage survey) show an even heavier concentration in the younger age groups; of the first-time purchasers in 1977 with building society mortgages who were local authority tenants before they bought, some 85% were under age 45.

10. Movers to accommodation rented from private landlords, etc, appear to be more evenly spread between age groups.

11. Outward migrants, other than dependent children, are predominantly young adults. Of emigrants aged 15 or over, some 85% are (on the evidence of the International Passenger Survey) under age 45.

12. In summary, departures from the local authority sector appear to be concentrated at the high ages ("old age" departures) and at below middle age (most who move out to owner-occupation, and emigrants), with comparatively few departures by householders between the mid-40's and mid-60's in age (perhaps 11,000 to owner-occupation, 7,000 movers to private renting, a few older emigrants and a few re-marriages, making 20,000 or so in total). Only about 20,000 or so out of a total of 175,000 departures (about 11%) are in this midd (mid-40's to mid-60's) age range; but within this age range are some 2 million out of the total 5 million local authority (and new town) tenant households.

13. The significance of the estimates of the age of households departing from the local authority sector lies in the comparison with what is known about the age of tenant householders who bought their houses from the local authority. Evidence here is not plentiful, and consists of data extracted from local authority records in Halesowen, Stafford, Warley, West Bromwich, and Wolverhampton (Miss P Niner, Local Authority Housing Policy and Practice, Centre for Urban and Regional Studies, Birmingham University, 1975); and collected in Birmingham by interview survey (A Murie, The Sale of Council Houses, Centre for Urban and Regional Studies, Birmingham University 1975). This evidence, which relates to sales in 1973 or earlier, was summed up by Murie as: "... a clear picture emerges of the 'typical' council house purchaser household. The householder has been a long established tenant, is in middle age with a fairly large family growing up. He is earning above average wages, usually in a skilled manual occupation. The family has often reached the stage in the family cycle where more than one wage earner is living at home" (A Murie, op cit, p103). The ages of heads purchasing households in Birmingham according to Murie's survey are shown in Table 3.

Table 3. Age of Birmingham Householders Buying As Sitting Tenants

	Percent
Under 30	1
30-39	19
40-49	30
50-59	37
60-69	9
70 and over	4
	<hr/> 100

Source: A Murie, The Sale of Council Houses (1975), Table 6.2

14. Murie's survey also found (A Murie, op cit, Table 6.8) that of his sample of purchasers 7% had considered buying elsewhere, and 93% had not. Since the sample was drawn from households that had bought within the previous 5 years, it is possible that a few purchasers may have moved in the meantime, but the proportion was probably small in view of the pre-emption clause. So even if those who had moved already were more likely to have considered buying (possible but not necessarily so), the 93% who had not otherwise considered house purchase is unlikely to have been much of an over-statement. Murie's survey is the only evidence on this point. It refers to Birmingham, and to purchasers in the 5 years before 1973, so there must be some uncertainty about how far it applies to purchasers at other times and other places. No contrary evidence, however, has been reported thus far. The conclusion that follows is an important one: that very few of the 50,000 or so local authority tenant households that moved away to buy a house would have bought instead as sitting tenants if they had had the opportunity.

15. Most sitting tenant purchasers are not old enough for many of them to die, or have to go to live with relatives, or go into a home for old people, in the near future. Moreover, before a vacancy occurs which will enable a new tenant to be accommodated, not only must the death of the householder take place, but that of his widow as well, or a move by her to live with relatives, or to an old people's home. In about 70% of marriages the husband pre-deceases the wife; and on average, wives are about two years younger than their husbands. The expectation of life for females is higher than for males, which further lengthens the interval before a vacancy would occur as a result of death.

16. Sitting tenant purchasers in the early 1970's appear to have been concentrated by age in the forties and fifties. Murie's data for Birmingham (Table 3) shows rather more in their fifties and fewer in their forties than did the data collected by Miss Nines (due partly, perhaps, to Murie's figures relating to age at time of interview and Miss Niner's to age at date of purchase). So the life expectations of purchasers both in their forties and their fifties are relevant. For householders aged 40-49 the expectation of life, including that of a surviving widow two years younger, is between 31 and 42 years; for householders aged 50-59 it is about 30 years. If the two groups are combined the average interval before both the tenant and his widow are gone would be about 36 years. This was rounded down to 35 years, as some people, widows especially, give up living on their own and go to live with relatives or in a home for old people before they die.

17. In short, nearly all sitting tenant purchasers would otherwise have remained tenants until their death, when the widow would take over the tenancy. Not until she ceases to live as a tenant is there any effect on the number of new tenants that can be accommodated.
