

NO ①

Prime Minister



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

Agree, subject to

Collynes, to his approach - i.e. a Green Paper and a commitment to legislate?

Mes 11/5

PRIME MINISTER

BUILDING SOCIETIES

Since my speech to the BSA conference last year, I have been considering the arguments for new legislation on building societies. I have concluded that there is a strong case for such legislation early in the next Parliament. I raise the point now because both Tom King and I believe it would be helpful if we could say as much in the course of the Election campaign.

2. The building societies themselves want to see legislation. Earlier this year, the Spalding Report recommended a widening of their powers so that they can play a full part in new forms of housing provision and offer a wider range of services to their investing and borrowing members. Although considerable reservations were expressed by senior figures in the movement at their recent conference about the more radical proposals such as a power to own banking or insurance subsidiaries, the movement is unanimous that new legislation is necessary. I share that view, and my officials have been doing the preliminary groundwork with the Chief Registrar of Friendly Societies, with DOE officials and, informally, with the Building Societies Association to clarify the issues.

3. The key need is to expand societies' powers in relation to housing. I know that Tom King is firmly of the opinion that this needs to be done. Building societies have a potentially important role in helping to revive the private sector rented market through financing assured tenancies. This would widen choice and encourage job mobility. With new powers, they could help to extend home ownership further through a range of measures like low start and equity mortgages, and

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We said - commit ourselves to legislative work  
we have considered  
to take the opportunity  
open a Green Paper





direct participation in shared ownership. The present legislation, much of which dates from 1874, does not allow them to achieve many of these objectives. Two large societies have already sought to get round some of the limitations indirectly by setting up parallel housing associations. But the formal relationship with the parent society is uneasy and unsatisfactory, and it is at best a temporary expedient. We must put this right.

4. There are other issues with which the legislation will need to deal:

- (a) Expansion into new areas of housing activity must not be at the risk of compromising the traditional security of the building society movement. An updated system of prudential supervision by the Chief Registrar will be necessary to ensure this.
- (b) In an increasingly sophisticated and competitive market, their powers to provide appropriate services to investing members need to be widened.
- (c) Spalding recommended extending the range of services they can offer their borrowers - for example, conveyancing, surveying, estate agency or insurance. The implications of this need to be considered further, particularly as the societies themselves have not yet reached a clear conclusion on what they want.
- (d) The question of societies' accountability to their memberships will need to be tackled. Here we must devise a statutory framework which strikes a balance between ensuring proper accountability and avoiding undue interference in day to day management by very small and unrepresentative minorities.



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5. At the same time we shall need to look at two aspects which bear on competition policy: the exemption of the recommended rate system from the restrictive trade practices legislation; and the different tax regimes to which banks and building societies respectively are subject. (This would not cover mortgage interest relief, which is common to both.) Although not part of building society legislation as such, these should be reviewed in parallel with it.

6. There is much detailed work to be done. But the case in principle for legislation in the next Parliament seems unanswerable. I propose that we should plan to issue a Green Paper later this year discussing the broad issues and inviting public comment. Legislation - probably preceded by the publication of draft Clauses, in view of the technical complexity of some of its provisions - could then follow in the 1984-85 Session.

7. I am copying this minute to Willie Whitelaw, Tom King, Cecil Parkinson, John Biffen and Sir Robert Armstrong.

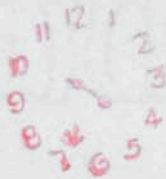
(G.H.)

10 May 1983

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191 MAY 1983



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FILE

Housing (67)

sic. Mr. Mans

10 DOWNING STREET

From the Private Secretary

11 May, 1983

ROLE OF THE BUILDING SOCIETIES

The Prime Minister was grateful for the Chancellor's minute of today's date about the future role of the building societies.

The Prime Minister does not believe that the Government should commit itself to legislation until there has been collective discussion of the implications of the proposals in the Chancellor's minute. She agrees, however, to a Green Paper, in which proposals would be canvassed designed to enable the building societies to play a fuller role in supporting the provision of new housing, and bring up-to-date the laws which govern building societies.

I am sending a copy of this letter to Tony Rawsthorne (Home Office), David Edmonds (Department of the Environment), Alex Galloway (Chancellor of the Duchy of Lancaster's Office), David Heyhoe (Lord President's Office) and to Richard Hatfield (Cabinet Office).

M. C. SCHOLAR

John Kerr, Esq.,  
HM Treasury

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Prime Minister

C.G. NO  
Prime Minister

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## BUILDING SOCIETY POWERS

I have seen the Chancellor's minute to you of 10 May and of course I endorse his plan to issue a Green Paper later this year leading to fresh legislation early in the next Parliament.

The expansion of societies' powers to enable them to participate directly as landlords of assured tenancies will be profoundly helpful in getting a greater contribution from the private sector to the provision of rented accommodation. Building Societies have the necessary resources, the public confidence and the political neutrality to make a major success of the scheme. It will also help create a new image for the private landlord. The widening of powers to hold land and hence to provide accommodation on a shared ownership basis is also of great assistance in the extension of home ownership to those who could not otherwise afford it.

There must also be, as the Chancellor indicates, an updated system of prudential supervision for building societies to enable them to carry out these new functions while protecting their central role in lending for home ownership and providing a safe home for savings. But I would stress that care need be taken in its design to avoid rules so stringent as to obviate the possibility of success for those attempting the new and possibly riskier housing activities. I am sure this is not the intention.

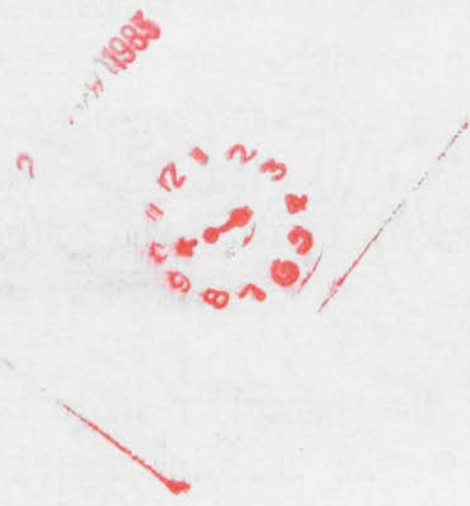
I am copying this minute to the Chancellor, Willie Whitelaw, Cecil Parkinson, John Biffen and Sir Robert Armstrong.

For TK

(This minute approved by the Secy of State and signed in his absence)

23 May 1983

Housing:  
Organisation &  
Structure of  
Building Societies.  
May 79



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LONDON



file

See



10 DOWNING STREET

*From the Private Secretary*

24 May 1983

This is just to record that the Prime Minister has seen and noted your Secretary of State's minute of 23 May about building society powers.

(Tim Flesher)

Mrs. Helen Ghosh,  
Department of the Environment

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