



File

JKRASB

10 DOWNING STREET

From the Private Secretary

21 January 1985

Dear John

PUBLIC SECTOR HOUSING IMPROVEMENT POLICY - CONSULTATION DOCUMENT

The Prime Minister has seen a copy of your Secretary of State's letter of 7 January to the Lord President, with which he circulated a draft Consultation Paper on private sector housing improvement policy. The Prime Minister has also seen a copy of the Chief Secretary's comments in his letter of 18 January.

The Prime Minister considers that the draft Consultation Paper is likely, in its present form, to make considerable political difficulty for the Government without any commensurate return. She is particularly concerned about the treatment of home improvement loans, but she believes also that the options set out in paragraph 33 of the draft need to be widened to include some discussion of the possibility of paying mandatory grants only to those of pensionable age.

On loans, the Prime Minister shares the Chief Secretary's reservations about terms. She has commented that if home improvement loans are interest-free, make no allowance for inflation, and are also subject to partial remission in certain circumstances, then they are not very different from grants. Moreover, the political implications of the proposals need to be more fully thought through, bearing in mind that, if failure to get help from a bank or building society is a condition of the loan:

(a) a number of owner-occupiers who now qualify for financial assistance will get none;

(b) judging the seriousness of people's efforts to obtain bank and building society finance will be extremely difficult;

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(c) those who are least credit-worthy, and therefore rejected by private institutions, will be most likely to obtain loan finance from a local authority.

The Prime Minister has the following detailed comments on the draft:

- (i) Paragraph 14 - ~~the Prime Minister~~ is helping to maintain a satisfactory workload for the building industry an appropriate objective of home improvement policy?
- (ii) Paragraph 21 - Does the fact that some owners find the prospect of major work to their homes daunting establish beyond doubt the need for more direct help?
- (iii) Paragraph 29 - Why need it be assumed that repairs as well as improvements should qualify?

BF // I should be grateful if you could let me have a note setting out your Secretary of State's response to these comments, following which the Prime Minister has it in mind to take the chair herself at a meeting to consider further the form of the proposals which should be put out to consultation.

I am sending copies of this letter to Janet Lewis-Jones (Lord President's Office), to the Private Secretaries to the members of H Committee, and to Richard Hatfield (Cabinet Office).

Yours ever,
David

(DAVID BARCLAY)

John Ballard, Esq.,
Department of the Environment.

PRIME MINISTER

HOME IMPROVEMENT

The first of the Policy Unit recommendations is certainly the most important, and in my view it is the only one that you need to pursue at this stage.

Why do we need to publish this Green Paper. It is a waste which to back numbers.

The Consultation Paper suggests that home improvement loans should be available only to those who fail to get help from banks and building societies. This proposition seems to me to suffer from a number of disadvantages:

- (i) a lot of owner-occupiers who now qualify for some financial assistance will be ruled out (cf student grants);
- (ii) judging the seriousness of people's efforts to obtain bank and building society finance will be extremely difficult;
- (iii) those who are least credit-worthy, and therefore rejected by the private lenders, will be most likely to obtain help from a local authority.

I am horrified about the proposals. I don't think I should have Peter Reid's suggestion. These loans are not loans - they are almost grants. No interest, no account, later in the year - initially no repayments.

In welcoming in principle the idea of home improvement loans, you may therefore like

- (i) to note the Chief Secretary's reservations (Flag A);
- (ii) to ask H Committee to consider carefully the political dimensions of this decision.

I do not

Agree?

like the proposal

Dub

18 January 1985

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JB

Treasury Chambers, Parliament Street, SW1P 3AG

Rt Hon Patrick Jenkin MP
 Secretary of State for the Environment
 Department of the Environment
 2 Marsham Street
 London
 SW1P 3EB

18 January 1985

Dear Secretary of State

PRIVATE SECTOR HOUSING IMPROVEMENT POLICY-
 CONSULTATION DOCUMENT

will request
 if needed

Thank you for copying to me your letter of 7 January to Willie Whitelaw.

In general I am content with the draft consultation document subject to the points below relating to three aspects of the document which go further than the proposals agreed by H Committee on 17 October.

First, I was interested in the proposal (paragraphs 37-44) that loans should be substituted to a greater or lesser extent for grants. I think this is well worth pursuing. But it is important that we think through the implications of a loan scheme thoroughly before canvassing it.

This is not a loan - but a grant

In the longer term a loan scheme could offer public expenditure savings but the benefits should not be overstated (as they certainly are in the existing draft). Substituting loans for grants will not result in short-term savings, and in the longer term savings will be limited by the generosity of the repayment terms (loans to be repaid, interest free, only on the sale of the house and only to the extent that the value of the house has appreciated as the result of the improvement work undertaken with the loan). To the extent that savings are in prospect, I do not believe we should canvass the option of using them to increase the numbers assisted as the existing draft does. We could get only one answer from the lobbies.

If we are sure we have got the scheme right, then I think it worth emphasising the possibility of substituting loans for all grants, mandatory or discretionary. In part

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this is because to substitute loans for discretionary grants alone seems to be likely to lead to upward pressure on expenditure. But in principle, with repayment terms as described above, I wonder whether there are any fundamental objections to replacing grants entirely with loans since repayment is only called for when the value of the improvement is realised on sale of the house.

Second, paragraph 77 of the document which deals with the scheme to encourage private redevelopment, should be amended to make it clear that local authorities will need to appraise schemes carefully to ensure that developers' costs are reasonable and that the selling price should be set at the maximum which the market can bear. The scheme should not involve any subsidy to the selling price. In view of the scope for abuse, I think it would be sensible first to run a pilot scheme to assess the administrative practicalities of this proposal. The document might suggest that this should be in the partnership areas using the existing arrangements for Urban Development Grants.

Third, paragraph 78 dealing with financial assistance to low income owner occupiers displaced by redevelopment should make it clear that the cost of such assistance should be taken into account in evaluating the cost effectiveness of redevelopment as opposed to improvement and that it should be given only to owner occupiers who are too poor to obtain commercial loan finance.

I am copying this letter to the Prime Minister, members of H Committee and to Sir Robert Armstrong.

Yours sincerely

P. Rees

for PETER REES

[Approved by the Chief Secretary]

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JAN 1985

