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* In addition there are
(i) Chief Secretary, rate of 1 1/3
(ii) Lord Young's rate of 27/2
(iii) Policy Unit rate of 1 1/3
All three urge inclusion of loans
as an option in the consultation
document.

PRIME MINISTER

HOUSING IMPROVEMENT POLICY

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(PS/Secretary of State for the Environment's letter of 11 February)

BACKGROUND

1. For many years there has been a system of house improvement grants to owner occupiers - mandatory grants for the installation of basic amenities (eg toilets, washing facilities) and discretionary grant for major repairs and improvements. Eligibility is restricted to those with rateable values below £400 in London and £225 elsewhere. The underlying rationale is that the housing stock is a national asset, the maintenance and improvement of which to basic standards is worth public support where owners cannot afford to undertake the work themselves. The latest house condition survey (1981) showed that about 25 per cent of owner-occupied houses in England and Wales needed substantial improvement or repair and 5-6 per cent needed major repair.

2. The present system is inefficient: a third of those eligible could afford the work without public sector help, while over 100,000 owner-occupiers who cannot afford the work are ineligible. The Housing ministers have therefore reviewed the policy and brought new proposals to H Committee last year. H Committee agreed that there should continue to be a system of grants, but that in future mandatory grants should be related to a "tolerable" standard and discretionary grants to a "10 point/30 year" standard (details in Appendices A and B to this brief), and that the rateable value test of eligibility should be replaced by a means test based on gross income (£10,000) and savings (£4,000) (details in Appendix C). This would improve the targetting by reducing to under 200,000 the number of those eligible who could afford the work without public sector help, and to about 60,000 the number of those who will remain ineligible even though they cannot afford the work. The Housing ministers were

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asked to prepare consultation documents.

3. While they were doing so, it was suggested to them that an option to make loans should also be introduced and this was included in their draft consultation paper. It was your concern about this aspect in particular that has led to the meeting.

MAIN ISSUES

4. The main issues are:

- a. Whether assistance (whether by grant or loan) should be provided to owner-occupiers.
- b. What the eligibility test should be.
- c. Whether there should be loans instead of or as well as grants.

Assistance in principle

5. A stated objective of the increase in grant expenditure announced in the 1982 Budget was support for the construction industry but the underlying reason for state support is the national interest in the maintenance of the housing stock in decent condition. The argument is that, if it is not adequately maintained, there will in the longer run need to be greater use of national resources (including possibly public expenditure) to replace what is worn out. There is also the Government's manifesto commitment to "make Britain the best housed nation in Europe". While in principle it is clearly the responsibility of owner-occupiers to maintain and improve their own homes (and they, in the short term, are the ones who suffer if they fail), there are many of them who cannot in practice afford to do so. (And this may be an increasing number as the "right to buy" and other initiatives bring more of the lower income groups into owner-occupation.)

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The eligibility test

6. Accepting that there is a case for public sector involvement, the objective is to limit support to those who cannot afford to finance the work themselves. The present eligibility test uses rateable value as a surrogate for ability to pay. It is inefficient bringing in many who can afford to pay (or to borrow) as well as leaving out many who cannot. A full means test (taking complete account of individuals' ability to pay) would be very efficient but costly in administrative terms and likely to act as a significant deterrent to take up. H Committee favoured a simpler test of income (up to £10,000) and savings (up to £4,000 excluding the value of any equity in the house) which would be more efficient than the present system without the complexity, administrative cost or deterrent effect of a full means test.

7. In addition the Secretary of State for Wales favoured "passporting" (ie automatic eligibility) for old age pensioners but this was rejected because many pensioners (perhaps 120,000 households) could afford to pay. You have queried whether mandatory grants could be restricted to those of pensionable age. Paragraph 11 of the DoE paper points out that this would exclude some 60 per cent of those in the worst housing who could not afford to do the work themselves and would therefore have to depend on discretionary grants.

Grants or loans

8. The Department of the Environment assume that loans would be repaid when the value of the property is realised and that their terms could be either (i) interest free, (ii) with interest rolled up and paid when the loan is repaid, or (iii) linked to a share in the equity of the property.

9. The case for loans is partly on public expenditure grounds (while the loans do not cover their cost until year 20 or beyond - see the table in paragraph 20 of the paper - there would be a public



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expenditure saving as compared with grants almost from the beginning) and partly on grounds of fairness. Why should the owner get a windfall gain from the effect of the repair/improvement on the value of the property, at the expense of the taxpayer? The disadvantages are the administrative complexity and, more importantly, the deterrent effect (though no attempt is made to quantify this in the DoE paper). There is also a political dimension. Similar arguments apply to a mixed system (eg mandatory grants but discretionary loans) though this might be a useful way of introducing the loan concept without going the whole hog. On balance, the Secretaries of State for the Environment and for Scotland both favour not adopting loans. The Chief Secretary is likely to take the opposite view.

HANDLING

10. You will wish to ask the Secretary of State for the Environment to introduce his paper, and might then ask the Housing ministers (Scotland and Wales) to add any comments. The Chancellor of the Exchequer and the Chief Secretary, Treasury will have views particularly on the eligibility test and the loans issue. The Lord President and the Paymaster General may wish to contribute on the Parliamentary and political dimension.

CONCLUSIONS

11. The consultation documents will need to be finalised for publication. You will wish the meeting to decide what should be said in them about:

- a. the reasons for assisting home-owners with improvement and repair;
- b. the eligibility test;
- c. the substitution of loans for grants (either completely or in a more limited way).

C J S BREARLEY

1 March 1985

PROPOSED TOLERABLE STANDARD FOR HOUSING IN ENGLAND AND WALES

A dwelling shall be held to meet the tolerable standard if it

- a) is structurally stable;
- b) is substantially free from rising or penetrating damp;
- c) is free from serious and dangerous structural disrepair;
- d) has adequate natural lighting and ventilation;
- e) has an adequate piped supply of wholesome water available within the dwelling;
- f) has a sink provided with a satisfactory supply of both hot and cold water within the dwelling;
- g) has a water closet available for the exclusive use of the occupants of the dwelling and suitably located within the dwelling;
- h) has satisfactory personal washing facilities;
- i) has an effective system for the drainage and disposal of foul, waste and surface water;
- j) has satisfactory facilities for the preparation and cooking of food;
- k) has satisfactory access to all external doors and outbuildings.

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APPENDIX B

THE 10 POINT/30 YEAR STANDARD

A dwelling will reach the 10 point/30 year standard if it

- is likely to have a useful life of at least 30 years;
- is in reasonable repair;
- has all the standard amenities; and
 - i) is structurally stable
 - ii) is substantially free from rising or penetrating damp
 - iii) has adequate natural lighting and ventilation;
 - iv) has adequate and safe provision throughout for artificial lighting and has sufficient electric socket outlets for the safe and proper functioning of domestic appliances;
 - v) has an effective system for the drainage and disposal of foul, waste and surface water;
 - vi) has a satisfactory internal arrangement and satisfactory access to all external doors and outbuildings;
 - vii) has satisfactory facilities for the preparation and cooking of food;
 - viii) has adequate facilities for heating;
 - ix) has proper provision for the storage of fuel (where necessary) and for the storage of refuse; and
 - x) has adequate thermal insulation in the roof-space.



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The Income and Savings Test

1. Eligibility is determined by the gross income and savings of the head of the household and partner. Those with incomes of less than £10,000 and savings of less than £4,000 would be eligible for grant. All those on means-tested benefits would be eligible automatically. About 1.3 million households would be eligible for grant in principle.

2. Access to grant for those meeting the basic test would then be controlled by a taper as follows. (Only those with savings under £4,000 eligible.)

Annual Income	Share of Costs met by applicant	Maximum Amount of grant*
Less than £6000	25 per cent of eligible work	75 per cent of eligible work
Less than £8000	First £1000 of eligible work + 25 per cent of rest	75 per cent of costs above £1000
Less than £10,000	First £2000 of eligible work + 25 per cent of rest	75 per cent of costs above £2000

* Authorities may pay lower rates of grant at their discretion

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