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10 DOWNING STREET

6 March 1985

*From the Private Secretary**Dear John.*Home Improvement Policy

The Prime Minister held a meeting today in her room at the House of Commons to discuss home improvement policy. Present were the Lord President, Chancellor of the Exchequer, Lord Privy Seal, the Secretaries of State for the Environment, Trade and Industry, Scotland and Wales, the Chief Secretary, the Paymaster General, the Minister for Housing and Construction and Mr. Newton. Also present were Mr. Monckton and Mr. Brearley.

The Secretary of State for the Environment said that, following discussion in H Committee last year, he had produced a draft Green Paper. This sought to remedy two main defects of the existing grants scheme - that it gave help to many who could afford to pay for their own improvement work, and that it denied help to many others who could not afford to pay because eligibility for assistance was determined by the rateable value of the property. It also floated the idea of loans as an alternative to grants, a suggestion which had been made following the H discussion. In response to comments on the Green Paper he had produced a policy note which was circulated on 11 February. This recommended targeting grants through a simple means test and argued against the introduction of loans. The Chief Secretary's paper of 1 March had not only argued for loans but had reopened the question of whether discretionary grants should continue to be available.

The Prime Minister said that the concept of repairs for which discretionary grants were available had been introduced in 1974; it was not something to which the present Government should be committed. People not only had an interest in maintaining the condition of their own property but, with rising living standards, should increasingly have the resources to do so. She saw merit in loans which could be secured on the house and for which the cost would be related to the increase in value. Furthermore the new definition of improvements eligible for both mandatory and discretionary grants was much wider than under the existing scheme.

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In discussion it was argued that equity linked loans could have an important role to play. They would provide a household with a fair choice between financing improvements themselves or seeking Government assistance in return for conceding part of the increased equity arising from the improvements. This would avoid a situation in which taxpayers financed work which increased the value of houses which then accrued solely to the householder or his heirs.

It was argued that nonetheless it would be a mistake to rely wholly on loans. There were a large number of older properties (and would soon be an increasing number of poorly built inter-war properties) occupied by people, many of them retired, who could not afford to maintain them. While the state had no responsibility to maintain such properties it was in its interest to do so as otherwise the condition of housing would deteriorate, the occupants would fall to be housed by the state and the state would have to finance expensive urban renewal. An all-loan system would discourage many poorer people from making desirable improvements. Means tested grants should be available but only for mandatory improvements. So far as possible the criteria used for means testing home improvement grants should be aligned with those in the new housing benefit scheme.

In discussion the merit of the revised Improvement for Sale grants was queried. In their favour it was argued that such grants provided a mechanism for encouraging private developers to take on whole blocks of houses. This was often preferable to piecemeal improvement. Furthermore it was entirely consistent with the Government's aim of encouraging co-operation between the public and private sectors. It would not add to expenditure as the grants would be financed from within local authorities' existing capital allocations.

The Chief Secretary suggested that a system of publicly guaranteed improvement loans should also be investigated as a further option. The loss rate would be small as the loans would initially be secured on the property. Furthermore the administration would fall to the private sector.

The Secretary of State for the Environment said that if revised proposals were settled quickly he would be able to include the necessary legislation in the Housing Bill he hoped to bring forward dealing with the private rented sector. The Lord Privy Seal took note of his wish to introduce this legislation in the next session but warned that the legislative programme was already very heavily loaded.

The Prime Minister invited the Secretary of State for the Environment to develop further the proposals for home improvement support in the light of the discussion. He should look at the definition of the work which was eligible for mandatory and discretionary assistance with the aim of tightening up the definitions particularly of mandatory work. He should investigate a scheme in which grants were

made available for mandatory improvements and equity linked loans secured on the property provided for discretionary work. Loans might also be appropriate for mandatory work incurred by householders whose income was at the top end of the eligibility range. Support in either form should be related to an eligibility test based on household income and savings on the lines proposed by the Secretary of State. If possible the eligibility criteria should be made consistent with those in the new housing benefit scheme. The Secretary of State for the Environment, in conjunction with the Chief Secretary should also investigate the possibility of publicly guaranteed loans. The Secretary of State for the Environment should then submit a revised draft of the Green Paper to H Committee for further consideration.

I am copying this letter to Janet Lewis-Jones (Lord President's Office), Rachel Lomax (HM Treasury), David Morris (Lord Privy Seal's Office), Callum McCarthy (Department of Trade and Industry), John Graham (Scottish Office), Colin Jones (Welsh Office), Richard Broadbent (Chief Secretary's Office), Alex Galloway (Paymaster General's Office), Neil Kinghan (Minister for Housing and Construction's Office), Colin Phillips (Office of the Minister of State, DHSS), David Normington (Department of Employment) and Richard Hatfield (Cabinet Office).

Your sincerely

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