



The Prime Minister

HOUSING POLICY REVIEW

1. You may wish to have my initial reactions to the report of the official group before we meet to discuss it on 4 June. The issues for Ministers listed in paragraph 21 of the Chairman's Note need to be considered within a political framework.

BACKGROUND

2. There are 11.5 million owner-occupied dwellings in England, 63% of total stock. 3.5 million (30%) were built before 1919, 2.8 million (24%) between 1919 and 1945, and 5.2 million (45%) since the war.

3. There are 4.7 million dwellings owned by local authorities and new towns, 26% of total stock. 0.2 million (4%) were built before 1919, 1.0 million (21%) between 1919 and 1945 and 3.5 million (75%) since 1945. Of the local authority and new town stock, 1.6 million (34%) are flats.

4. There are 440,000 dwellings owned by housing associations, 2% of total stock. 240,000 of these are flats, 55% of total housing association stock.

5. The private rented sector accounts for 1.7 million dwellings, 9% of total stock. In recent years this sector has been declining by about 70,000 per year.

6. Local authority HIP returns, and the returns from the Housing Corporation and new towns, showed that at 31 March 1984 there were 116,000 empty public sector dwellings (2.2% of the total) and 548,000 empty private sector dwellings (4.3% of the total).



Achievements since 1979

7. The main aim of our housing policy has been to increase the level of home ownership. By December 1984 owner occupation had reached 63%, compared with 57% in March 1979. (Figures here and elsewhere are for England). Over this period the number of owner-occupied dwellings increased by 1.5 million, of which 700,000 represented sales of public sector dwellings, both under the right to buy (RTB) and voluntarily. About 13% of the public sector stock has already been sold to the private sector in this way, and sales are likely to continue, though at a lower level. (In the public expenditure survey we have assumed sales of 90,000 in 1985/86 and 80,000 in 1986/87). Owner occupation has also been promoted through our low cost home ownership initiatives.
8. In 1981 more than a million and a half privately owned homes were in a very unsatisfactory condition. the position has improved since then, partly as a result of a high level of spending on improvement grants over the last three years; but disrepair remains a significant problem. The improvement grant system needs to be better targetted, and a Green Paper was published on 9 May, with a view to legislation next session.
9. The private rented sector has continued to decline. Our proposals for deregulating new lettings should begin to reverse this trend and lead in the longer term to an increase in the supply of housing to rent.
10. In the public sector we have encouraged local authorities and new towns to concentrate resources on the maintenance and improvement of their stock. New build should be provided only for those whose needs cannot be met in the private sector.

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11. Local authority rents have risen substantially as a proportion of earnings, from the lowest figure since before the war in 1979/80 - 7% - to 9.7% in 1984/85. But about 65% of local authority tenants are on housing benefit and thus have their rents met wholly or partly by the Exchequer; 35% have their rents met in full.

12. We have had some success in encouraging the disposal of empty local authority blocks of flats to developers (eg Minister Court in Liverpool), and a major success in securing the disposal of a whole tenanted estate of 3000 dwellings to a private trust for refurbishment, infill, and reletting (Stockbridge Village in Knowsley).

Problems and policies for the future

13. As a strategy for the future the report of the Official Group recommends the development of a market related approach to housing policy. I agree with this. However the market is not free today, because of housing benefit, housing subsidy, tax relief on mortgage interest (for reasons which we all understand), and the Rent Acts. Our policies for the deregulation of the private rented sector and for targetting improvement grants on those who need them are important steps in the direction suggested by the report. Both will reduce distortions in the market; and over a period deregulation should have the effect of increasing supply.

14. The growth of owner-occupation will continue. The availability of mortgage finance at reasonable interest rates is crucial; so is an adequate supply of land for private builders. If we have a Housing Bill in 1985/86 public attention will be focussed for some time on deregulation and improvement. I see no need for any other major initiative in relation to housing already in the private sector.



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The main problem is the 4.7 million dwellings owned by local authorities and new towns - in particular we must decide

- a) how to ensure that as much of the stock as possible is transferred to the private sector;
- b) how to secure the maintenance and improvement of the present stock; and
- c) how to maintain an adequate supply of rented housing for those who cannot afford owner occupation and for whom the private sector does not yet cater.

In considering options we must bear in mind that about a third of council tenants are on supplementary benefit and thus have their rents met in full, and another third have part of their rent met through housing benefit. None of these can readily afford to buy, or to pay substantially higher rents out of their own pockets. Of the remaining third (1½ million) only about 500,000 have enough income to buy under the current right to buy rules, which include an entitlement to discount; fewer than this could afford to buy at open market prices.

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The most pressing problem is the condition of the local authority stock. About one million dwellings - nearly a quarter of the total - have been assessed as "difficult to manage", partly as a result of their condition. Complaints from local authorities and tenants are increasing and are likely to increase further. The publication of the Report of the Duke of Edinburgh's Inquiry in July will sharpen public focus on the extent of the problem.

Condition of the local authority stock

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Details are given in chapter 6 of the report and in Annex F. We shall have more quantified information when returns to a special inquiry by my Department have been received at the end of May; and new Survey-based information when the results of the 1986 English House condition Survey become available, probably in the autumn of 1987.



18 Capital expenditure on improvement and repair is at present running at about £1.2 billion a year. The available evidence points to a need for capital expenditure to deal with repair and modernisation backlogs of the order of £20 billion, which might be spread over 10 years. This would mean adding up to £800m to the existing PESC provision. Another £1.2 billion of current expenditure is spent on routine maintenance and repairs and met from rents, Exchequer subsidy and contributions from the rates.

19 The renovation of the stock will require resources - public or private. The greater part of the cost is likely to fall on the public sector because those living in this housing are for the most part too poor to bear the costs themselves. But whatever public expenditure may be available, it will fall short of what needs to be spent. This strongly reinforces the case for encouraging local authorities to dispose of their stock to private developers who are willing to renovate it for sale or for rent.

Transfers of Stock to the Private Sector

a) Urban Housing Renewal Unit

20 Disposal to the private sector covers sales to individuals and to corporate bodies, including developers, private trusts and ownership co-operatives.

21 I announced on 26 February that I was setting up an Urban Housing Renewal Unit, with private sector participation, whose task will include the promotion of sales of local authority housing stock to private developers for refurbishment and onward sale to owner occupiers and to trusts or ownership co-operatives. I hope that it will be in place before the end of June. It will be responsible for directing public resources to the areas of highest priority and attracting private resources as far as possible.

22 For empty local authority dwellings there is a limited commercial market. So far about 3500 empty dwellings have been sold to developers for refurbishment. We shall do our utmost to accelerate this rate.



23 We have not yet succeeded in interesting private investors in tenanted dwelling on a large scale. Stockbridge Village (3000 dwellings) is the only significant example so far. One of the reasons is that the return available to them is limited by rent regulation. Deregulation of new lettings will help to some extent. But transfer of ownership to the private sector will not be welcomed by tenants, if it means big increases in rents. Moreover 65% of tenants are on housing benefits.

24 What is required, therefore, short of a new power of compulsion (~~see paragraph 26 below~~), is a more co-ordinated effort to identify the opportunities for, and encourage strenuously, sales to the private sector and, in the case of tenanted dwellings, to promote suitable arrangements for their management. These are the Unit's main tasks. If more privately financed trusts can be established to refurbish estates, thereby increasing the level of individual sales while continuing to manage a substantial number of tenanted dwellings, there should be long term gains on capital and current account as well as immediate benefits to the residents. There will be a higher cost to public funds in the longer term if the housing is left in local authority ownership and allowed, through lack of resources, to deteriorate further.

25 However, experience has proved that to attract private investment we shall need to prime the pump with public resources. The instruments available to us for pump-priming are Urban Development Grant, the Urban Programme and Housing Investment Programme (HIP) allocations. We shall certainly need to use these in the inner cities, where housing conditions are often very bad and where the market will not solve problems by itself.



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I also want to encourage tenants to take over the management and/or ownership of their estates. There are about 20 management cooperatives on local authority estates in England where tenants control a budget for the maintenance and management of their housing. There are no instances of Council tenants acquiring their own estates although some few have formed housing association cooperatives to undertake new-build schemes, funded by housing association grant (HAG), which provide an attractive alternative to further building by local authorities. Tenant cooperatives require a high degree of commitment and good leadership, but if these can be fostered they have a most valuable role. We should consider whether a majority of tenants on an estate could be given right to acquire it on reasonable terms.

b) Further Encouragement of Home Ownership Among Council Tenants

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The peak for sales under the right to buy was reached in 1982. I expect sales to continue - perhaps at about 80,000 a year - but they will not make a dramatic impact. I agree with the report's conclusion that we should not take measures to promote home ownership by those in receipt of state income support. Other measures, particularly relating to the sale of flats, are under consideration by my Department. Although there is no evidence that council and District Valuers are ignoring the provisions of the legislation when setting market values on flats under the right to buy we must look further at the question of selling prices, possibly by giving extra discounts on flats sales.

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The report suggests further study of a scheme of selective assistance to encourage tenants to move out and buy their own homes where this would make it possible to sell a block to a developer or to release housing for those in greater need. In the light of the current concern about the growth of homelessness we may do best to concentrate on the latter aspect and I am preparing urgently a proposal to put to colleagues as part of a package which I hope



to announce before the summer recess. This could also be an effective response to the Labour Party proposal to make grants or discounts available in areas such as the inner cities where in their view the right to buy should be restricted.

Need for housing to rent

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There is an increasing shortage of accommodation for renting in particular areas. There is mounting concern about the increases in homelessness. Acceptances by local authorities under the homelessness legislation rose from 38,000 in the last 6 months of 1982 to nearly 42,000 in the last 6 months of 1984; an increase of 10%. The number of supplementary benefit recipients receiving board and lodging allowances has risen by over 180% in the five years 1979 to 1984. The annual cost of payments has risen from £52m in 1979 to an estimated £380m in 1984 (calendar years).

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Deregulation of the private rented sector will help. But we shall also need to consider the case for a higher level of provision for new rented housing - particularly by housing associations - to deal with the serious problem of homelessness. Public expenditure on new build or conversion is a cheaper way of dealing with homeless families than paying for accommodation in hotels.

Rate of Return Rents

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The report suggests a move to rate of return rents in the local authority sector and perhaps for housing associations as well. I agree with this as a longer term aim. However, on a 4% rate of return rents would have to rise by nearly 25% on average, and by much more in London. We could not force local authorities to increase their rents in this way unless we were prepared to intervene much more directly in rent setting than has ever been done before. We should have to find some way of putting a value on each authority's housing stock for the purpose of setting the rate of return; domestic rateable values would not be an attractive basis. Legislation would be needed.



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Alternatively we could move towards higher local authority rents - without adopting a formal rate of return policy - by continuing to rely on the existing instruments of influence (rather than control) through the housing subsidy system (which now applies to only a minority of authorities - 78 out of 367 in 1985/86 - not necessarily those with low rents) and the rate support grant system. It would be easier to gain acceptance for this policy if we agreed to allow local authorities greater freedom to use the extra rent income to refurbish and improve their stock; this would require some changes to the present capital control system.

Private Finance

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I attach great importance to expanding the use of private finance for housing association activities (paragraph 7.9 of the report). This is in line with our political philosophy, and, if it can be achieved, should have the benefit of encouraging the wider involvement of the private sector in the provision of rented housing. Index-linked finance provides a means of achieving this, and we have already agreed a modest scheme of index-linked mortgages for shared-ownership schemes, worth about £20 million in 1985/86, as part of the Housing Corporation's programme. I want to expand this into the provision of rented housing. The Housing Corporation estimates that about £50 million could be added to its programme each year by the use of private sector index-linked funding. But, if the private sector is to play a larger role, we shall need to provide public sector guarantees, at least in the interim, and the building societies will need to be assured that their input will lead to increased housing association activity, and will not simply replace sector investment.

Conclusions

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The report recommends a market-related framework for the development of housing policy. I agree. But the report also shows that there is no easy way in which the problems of poor quality housing stock - especially in the public sector - can be solved



without a continuing programme of public expenditure. Privatisation will help; and we should build on the initiatives already taken. But private investors will only be attracted if they can be confident of a reasonable return; and that in turn depends on prospective purchasers and tenants having income high enough to meet the costs of provision.

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In summary, I invite colleagues to agree that -

(a) we should expand our efforts, through the Urban Housing Renewal Unit, to transfer ownership of local authority housing to the private sector as far as possible, using the instruments available to us for pump-priming;

(b) we should consider measures, including the possibility of an extra discount, to encourage sales of flats under RTB; but we should not introduce measures to promote home ownership by households on state income support;

(c) we should pursue the idea of a scheme of selective assistance to encourage council tenants to move out and buy, thus releasing rented accommodation in areas of acute shortage;

(d) in the meantime, a high priority should be given to the renovation of the local authority housing stock; this is a matter for the PESC discussions;

(e) in addition to c and in the shorter term, we must consider giving greater priority to the problem of homelessness;

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(f) in considering moves to higher local authority rents, we should take account of possible changes to the capital control system;

(g) we must find ways of increasing the use of private finance in housing association activities.

36. I am copying this minute to the Lord President, the Secretaries of State for Scotland and Wales, the Secretary of State for Social Services, the Chief Secretary, the Minister without Portfolio and to Sir Robert Armstrong.

PJ

23 May 1985

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