

K01150

PRIME MINISTER

Review of Housing Policy
(MISC 113(85)36; and the Secretary of State
for the Environment's minute of 23 May)

BACKGROUND

FLAG A. 1. When Cabinet discussed public expenditure on 8 November 1984 (CC(84)26th Conclusions, Minute 5) a number of concerns were expressed about aspects of housing policy, for example about the number of dwellings (especially in the private sector) in need of repair or improvement and the arrangements for giving support, about the role of public sector housing, about the growth of homelessness and overcrowding, and about public expenditure on housing benefit and housing generally. You summed up that the discussion had revealed a number of unsatisfactory features in present housing policy, and that you would give thought to how a review of housing policy might best be arranged.

FLAG B. 2. Subsequently, you agreed that an inter-departmental Group of officials, under the chairmanship of Mr Gregson (Cabinet Office), should undertake a review of housing policy and report to Ministers by 31 March 1985. MISC 113(85)36 (sent under cover of Sir Robert Armstrong's minute of 28 March) is the result. The report is covered by a chairman's note which sets out in paragraph 21 (pages viii to xi) the issues which Ministers might consider. The Secretary of State for the Environment FLAG C. wrote to you on 23 May with his initial reactions to the report.

3. Since the review was put in hand there have been two significant developments in housing policy - the possible use of loans rather than grants to support home improvements (on which consultation is now going on), and a decision made (but not yet announced) to deregulate new lettings in the private rented sector. In addition MISC 111 and Cabinet have made decisions on housing benefit, notably to retain 100% housing



benefit support for rents (subject to fall-back capping powers to prevent abuse) though limiting support for rates to 80%.

MAIN ISSUES

4. As there is only about an hour available for your meeting, I suggest that you will want to take current developments as read, and to concentrate on the broad thrust of policy. There is no need to take detailed decisions but you will want to give the Housing ministers sufficient guidance on how to proceed. In particular:

- (1) whether it is desirable to move as far as possible towards a market-related approach to housing policy;
- (2) what further action should be taken to extend the right to buy; especially to those on state support;
- (3) what further steps should be explored to transfer the ownership of local authority housing to the private sector;
- (4) what priority to give to spending on what remains in the local authority sector; how far to move towards economic rents; and how to improve management;
- (5) whether to seek to introduce more private finance into the voluntary sector;
- (6) what to do about homelessness;
- (7) how to further promote labour mobility.

The meeting should also take note of the position on legislation and consider presentation on whether to work towards a white paper.



A Market-Related Approach

(Report, para 21 ii)

5. The Report notes that there is no longer a national housing shortage, though there are regional and local shortfalls; GB housing conditions compare well with those in western Europe though there is increasing concern about disrepair and defects; owner occupation (60%) has widened choice and increased personal responsibility; the private rented sector (9%) is still tightly regulated and continues to decline; and the local authority sector (28%) has serious management problems and does not respond well to tenants needs. Public expenditure on housing (GB, capital and current, net of receipts, cash) has fallen from £5.5 billion in 1979-80 to a planned £3 billion in 1985-86, though housing benefit expenditure and the value of mortgage interest tax relief have both increased from under £1.5 billion in 1979-80 to an expected £4.5 billion in 1985-86.

6. Against this background, officials considered that the ideal strategy would be a market related approach with these main elements -

- keeping the amount of subsidy to a minimum (because it conceals real costs and distorts choices), concentrating it on people rather than housing, and directing it to those in greatest need
- reducing public sector involvement in the provision of dwellings, but providing sufficient resources for what it does have to do and promoting high standards of management and responsiveness to the needs of the consumer.

7. This broad approach is likely to commend itself to ministers. You may not want to promote much discussion. Reservations are certain to emerge in the discussion of the more detailed items that follow.

The Right to Buy and Home Ownership

(Report, para 21 iii-vi; Mr Jenkin's minute, paras 27 and 28)

8. The right to buy has been a great success. The question is



how much further can it reasonably be taken? The report proposes that DoE and Treasury officials should do further work on removing disincentives to the sale of flats (eg. the uncertainty of service charges, and liability for structural defects) and on the "cost floor" (which prevents mostly post-1974 dwellings being sold for less than the cost of construction). It also suggests that the period after purchase during which the purchaser, if he sells, has to repay his discount should be reduced from 5 years to 3. This is also relevant to encouraging mobility. These measures should encourage many of the 500,000 local authority tenants, who could afford to buy but have not yet done so, to exercise the right to buy.

No
9. Some tenants will not exercise the right to buy (RTB) eg. because they do not like their homes. One option would be to provide some equivalent to RTB discount for these tenants to buy private sector houses. This would be a radical departure and the report sees serious objections (see para 4.16) but it does recommend more work on two more limited schemes, one designed to release purpose-built dwellings for the elderly and disabled, the other to release public sector accommodation where there is a shortage of it. In both these cases the emphasis is thus on enabling the property vacated to be put to good use, rather than on benefitting the tenant as such.

10. The report, and Mr Jenkin, both recommend that measures should not be introduced to encourage home ownership by households on state income support. The fear is that to do so would simply mean the state picking up the bill for mortgage payments and future maintenance etc. The implication of not doing so is that these households must remain in the rented sector, which for most of them for many years is likely to mean the public rented sector.

11. A Homeloan Scheme was introduced in 1978 to provide limited assistance to first-time buyers. It is costing £2.3 million this



year. It has had a very limited take-up and has clearly not been successful. Despite the presentational difficulties, the report recommends it should be wound up. It may not be worth the trouble - Mr Jenkin might best be left to make his own decision.)

Privatisation

(Report, para 21 viii; Mr Jenkin's minute, paras 20-26)

12. Apart from sales to tenants, local authority housing (empty or occupied) can in principle be disposed of to corporate bodies, including developers, private trusts and ownership co-operatives. In the longer term there are likely to be substantial gains to public funds by removing the liability for future management, repair, etc. to the private sector. Progress so far has, however, been very slow. Stockbridge Village (3,000 dwellings) is the only major success. Ministers will want to encourage more to be done, if it can be achieved at moderate cost.

13. Mr Jenkin is in the process of establishing an Urban Housing Renewal Unit, with private sector participation. It should be in place by the end of June. Its main tasks will be to make a more co-ordinated effort to identify the opportunities for, and to encourage strenuously, sales to the private sector and, in the case of tenanted dwellings, to promote suitable arrangements for their management. Mr Jenkin foresees the need for pump-priming through Urban Development Grant and Housing Investment Programmes. He does not indicate the scale of this help nor the likely success.

14. Mr Jenkin also wants to encourage management and ownership co-co-operatives. The report recommends study of group purchase of estates by tenants and the possibility of a statutory right for a majority of the tenants on an estate to acquire it on reasonable terms. These ideas should no doubt be followed up though there are obvious difficulties in those at the bottom of the housing market exercising these rights effectively.



What remains in the local authority sector

(Report, para 21 vii and ix; Mr Jenkin's minute paras 31,32 and pars 17 to 19)
15. The report recommends that further consideration should be given to changing rents providing an economic rate of return and of improving management by opening it up to competition.

(Consultation is in hand on doing this for a range of local authority services.) The charging of economic rents will require rent increases of 25% on average. It will necessarily have implications for housing benefit expenditure, raises issues about enforcement, and would require legislation. However, Mr Jenkin, in consultation with Mr Rees and Mr Fowler, might be encouraged to come forward with proposals.

16. Mr Jenkin also stresses the need to give a high priority to the renovation of the local authority housing stock. He will pursue this in the PESC discussions. Inevitably there is going to continue to be local authority housing and provision will have to be made for it to be maintained adequately. Colleagues are likely, however, to wish to see a well made out case for increases on present provision. Mr Jenkin suggests that it might be easier to obtain agreement on raising rents if the income can be used for refurbishment and improvement.

The Voluntary Sector

(Report, para 21 x and xi; Mr Jenkin's minute, para 33)

17. 2% of the housing stock is owned by Housing Associations. Possible policy changes are to move towards economic rents which should be covered by the comparable work on local authority rents (para 15 above) and to introduce more private finance. Private finance would need a higher rate of return than the present Government money with an effect on rents but the present approach is not consistent either with economic rents or with the concept of subsidy to persons rather than buildings. Mr Jenkin believes that private finance can be obtained (by way of building society index-linked funding) provided there are public sector guarantees and no diminution in public sector investment.



Homelessness

(Mr Jenkin's minute, paras 29 and 30)

18. Mr Jenkin suggests giving greater priority to the problem of homelessness. The numbers of homeless and the cost of board and lodging allowance have both been rising. The problem is not universal but severe in some areas. Mr Jenkin believes that in the longer term deregulation of the private rented sector will help; in the short term he suggests that new build or conversion is a cheaper way of dealing with it than paying hotel bills. This is clearly a marker for the PESC discussions.

Labour Mobility

(Report, para 21 vii)

19. Chapter 8 of the report focusses on the connection between housing and labour mobility. Both public renting and owner-occupation provide inhibitions to mobility; private renting much less so. Deregulation of the private rented sector will help but necessarily marginally. The report recommends that further efforts should be made (eg. through the planning process) to ensure that sufficient housing is available where the jobs are, and that moving for owner-occupiers should be made easier by simplifying house-buying procedures (DoE have just published a report; the Farrand Committee's second report was published in March) and reconsidering the structure of stamp duty on house transactions.

Next Steps

20. The timing of housing legislation is to be discussed at Cabinet on 6 June and you will not want to pre-empt that discussion. (QL are recommending that the only housing legislation next session should be that on deregulation of the private rented sector; home improvement grants, right to buy extension, etc would therefore have to wait until 1986/87).

21. Finally you may like to consider presentation. Is there a case for working towards a comprehensive housing policy document eg. a White Paper, perhaps in the autumn when deregulation of the private rented sector will need to be announced anyway, or is it better to carry on with the present more piecemeal approach? The balance may lie with the piecemeal approach: policy development will be moving at different speeds and public expenditure may not



be settled until late in the year. It may also be better to pursue the policies envisaged without a comprehensive statement of them. But in this case you may want to keep up the impetus by asking Mr Jenkin for a progress report by Christmas. More detailed collective policy consideration of particular aspects can be dealt with in H Committee.

Handling

22. Mr Gregson has now left the Cabinet Office and I think the MISC 113 Report can be left to speak for itself. You may like to begin by inviting the Secretaries of State for the Environment, Scotland and Wales (ie the housing ministers) to give their reactions very briefly. You may then like to say that as there is not long for discussion, you suggest that the meeting should take the current initiatives on home improvement grants and the private rented sector and the general objective of a market-related approach as read; and that it should discuss briefly and in turn extension of the right to buy; privatisation of local authority housing (the Urban Housing Renewal Unit etc); expenditure, rental policy and management of local authority housing; the voluntary sector; homelessness; labour mobility; and next steps. On each the meeting will not need to reach conclusions but should be able to give general guidance for further work. The Secretary of State for the Environment and the Chief Secretary, Treasury, are likely to want to contribute on most aspects. The Minister without Portfolio will be particularly interested in labour mobility.

Conclusions

23. You will wish the meeting to give general guidance on:-

- future policy to be based on a market related approach;
- whether the Government should refrain from measures to promote home ownership by those on state income support;



- whether to study ways of further encouraging take-up of right to buy by those with adequate incomes, and of providing incentives to council tenants to purchase private-sector dwellings;
- whether to encourage privatisation of local authority housing through the Urban Housing Renewal Unit and by enabling tenants to manage/own their estates;
- whether to examine the implications and feasibility of economic rents in the local authority and voluntary sectors;
- whether to open up local authority housing management to more competition;
- whether to give high priority to the renovation of the local authority housing stock;
- U - whether to pursue the introduction of more private finance into housing associations;)
- whether, in the short term, to provide for more housing for the homeless;
- whether to take further steps to promote labour mobility;
- presentation.

You may wish to ask Mr Jenkin for a progress report towards the end of the year.

31 May 1985

C J S BREARLEY