

PREM 19/256

SECRET
Part 1

Confidential Filing

Housing Policy. The Housing Bill.

525

Housing

PE 1

May 1979

Referred to	Date	Referred to	Date	Referred to	Date	Referred to	Date
		17.7.80					
25.5.79		20.7.80					
15.6.74		23.7.80					
19.7.79		24.7.80					
4.9.79		31.7.80					
18.9.79		1.8.80					
22.11.79		- PE Ends -					
17.12.79							
18.12.79							
27.12.79							
8.1.80							
9.1.80							
24.1.80							
25.1.80							
15.2.80							
14.2.80							
1.5.80							
15.5.80							
9.6.80							
12.6.80							
19.6.80							
23.6.80							

PREM 19/256

● PART 1 ends:-

cc(80) 31st Mtg - Item 1 extract

PART 2 begins:-

Sir H. Cutler to Pm 1.8.80

TO BE RETAINED AS TOP ENCLOSURE

Cabinet / Cabinet Committee Documents

Reference	Date
H(79) 19	18/06/79
H(79) 20	18/06/79
H(79) 3 rd Meeting, Minute 3	21/06/79
H(79) 52	13/09/79
H(79) 55	14/09/79
H(79) 10 th Meeting, Item 1	18/09/79
L(79) 98	13/12/79
L(79) 15 th Meeting, Item 2	18/12/79
L(79) 15 th Meeting, Minutes	18/12/79
H(80) 1	07/01/80
H(80) 2	07/01/80
H(80) 1 st Meeting, Minutes	09/01/80
H(80) 41	09/06/80
H(80) 12 th Meeting, Item 1	12/06/80
H(80) 14 th Meeting, Minutes	19/06/80
H(80) 17 th Meeting, Item 1	16/07/80
CC(80) 29 th Conclusions, Minute 1 (Extract)	17/07/80
CC(80) 30 th Conclusions, Minute 1 (Extract)	24/07/80
CC(80) 31 st Meeting, Item 1 (Extract)	31/07/80

The documents listed above, which were enclosed on this file, have been removed and destroyed. Such documents are the responsibility of the Cabinet Office. When released they are available in the appropriate CAB (CABINET OFFICE) CLASSES

Signed AWayland

Date 4 May 2010

PREM Records Team

Published Papers

The following published paper(s) enclosed on this file have been removed and destroyed. Copies may be found elsewhere in The National Archives.

House of Commons Hansard: extracts from Debate on the Address

- (i) 15 May 1979, columns 79 (last 2 paras.) and 80 (first 2 paras.)
- (ii) 17 May 1979, columns 396 -401

Draft Housing Bill, published 12 December 1979

Signed C. Wayland Date 4 May 2010

PREM Records Team

Housing

23 July 1980



PRIME MINISTER

HOUSING BILL: LORDS AMENDMENTS

Christopher Soames and I have now discussed how to deal with the 5 amendments that were carried against the Government on the Housing Bill in the Lords on Report.

It is essential to avoid continuing disagreement between the 2 Houses on these outstanding amendments during the first week in August, as this might well jeopardize the enactment of the Housing Bill before the Recess, to which we are firmly committed.

Christopher and I believe that it will be necessary to offer the Lords something in order to get the Bill through during the last difficult week before we rise. We cannot allow any of the 4 amendments dealing with the Right to Buy that have been carried against us to stand without materially undermining our fundamental policy on the Right to Buy.

The fifth amendment carried has the intention of giving elderly non-taxpaying house owners who buy an annuity with a mortgage raised on the security of their house the benefit of option mortgage subsidy on the interest payable on the loan, equivalent to the tax relief granted in 1974 to similar taxpaying annuitants.

Although we have resisted this amendment firmly both on the Social Security Bill and on the Housing Bill, the object of the amendment, to help elderly people, is one that wins widespread sympathy. It commanded support in the Lords not only from the Opposition and cross-bench peers but from our own side, and in our judgement it is likely to be very difficult to reverse following Commons consideration of Lords amendments.

The course we therefore recommend to you is that we reverse all of the 4 Right to Buy amendments but that we accept the intention of the amendment on option mortgage subsidy. Since it is defectively drafted, we should need to do this by presenting amendments of our own, either on Third Reading or on Commons consideration.

As far as the costs of accepting the amendment are concerned, if 10% of those eligible were to take out such "Home Income Plans", it has been estimated that this would cost £10m in a full year. The take-up might well prove to be very much less. The procedural difficulties of introducing the change mean that it would anyway not take effect until several months after enactment and would therefore have a minimal effect on public expenditure in the current year. I suggest that the allocation of the costs of the scheme from 1981/82 onwards should be a matter for further discussion between the Chief Secretary, the Secretary of State for Social Services and myself.

I therefore seek your agreement to accepting the intention of the amendment on option mortgage subsidy for annuitants and the reversal of the amendments on the Right to Buy. I am of course ready to discuss the issue with colleagues immediately should you wish me to.

I am copying this minute to Geoffrey Howe, Christopher Soames, George Younger, Nicholas Edwards, Patrick Jenkin, Norman St John Stevas, Michael Jopling and Bertie Denham.

MH

MH



*MS/6 see
MP 23/...*

Housing

2 MARSHAM STREET
LONDON SW1P 3EB

My ref:

Your ref:

MS

23 July 1980

Dear Sir,

✓ Mr Ingham MS

PUBLICITY CONTRACT WITH DOYLE DANE AND BERNBACH

Mr Channon wrote to the Secretary of State yesterday about Mr Kaufman's PQ. In the light of Mr Channon's points we are happy for the Question to be answered by Mr Stanley.

I am copying this to Nick Saunders, No 10 and Richard Prescott.

*In cc,
Daid*

D A EDMONDS
Private Secretary

G Green Esq
PS/Mr P Channon MP
Civil Service Department

23 JUL 1980



Gene
Kang. 77
Tadde

20



with compliments

MINISTER OF STATE

MS
MS to see
MA

CIVIL SERVICE DEPARTMENT
Whitehall London SW1A 2AZ

Telephone 01-273 5563/4086



Civil Service Department
Whitehall London SW1A 2AZ
Telephone 01-273 3000

Minister of State
The Rt Hon Michael Heseltine MP
Secretary of State
Department of the Environment
2 Marsham Street
London SW1

CC Mr Ingham
to see

22 July 1980 MS

Dear Michael,

PUBLICITY CONTRACT WITH DOYLE DANE AND BERNBUSH

Gerald Kaufman has put down a written Question to the Minister for the Civil Service about the nature, terms and costs of the contract with Doyle Dane and Bernbush to publicise aspects of your Housing legislation.

I believe it would be wrong for me to answer this on the Prime Minister's behalf, but appropriate for you to do so. There are three reasons. First, the contract is in furtherance of a policy for which you are answerable, and the decision to mount the publicity campaign is one for which you are answerable. Second, my responsibilities for COI do not include any control over the selection of a particular advertising agency, the amount of the fee and so on. That is settled between COI and the department initiating the publicity. Third, if I were to begin answering questions of this kind, that could be used to bolster the allegation that not I but the Prime Minister, as Minister for the Civil Service, was in effect Minister of Information. That is not so, and there are powerful and obvious reasons for not allowing any doubt on the point. For these reasons, I hope you will agree to answer the question.

I am copying this to the Prime Minister and Angus Maude.

Yours,
Paul

PAUL CHANNON

Parliamentary Affairs

There are a number of items which you might want to raise under Parliamentary Affairs. Perhaps you might take them in the following order:-

(1) Trident

A note from Robert Armstrong is attached.

(2) Business for next week

There are two major matters arising, which you might take separately, as we suggest below.

(3) Housing Bill (*advance copy of H Minutes att'd*).

You might ask Mr Heseltine to outline his proposals.

The Lord Chancellor and the Solicitor-General will want to comment.

(4) Members' Pay: Future Reviews

The Chancellor of the Duchy minuted you about the line he wants to take in next Monday's debate. His minute is attached, together with a Cabinet Office brief.

MS

16 July, 1980

CAW rem.

ADVANCE COPY OF ITEM 1 OF MINUTES OF H COMMITTEE
HELD ON WEDNESDAY, 16 JULY 1980.

CONFIDENTIAL

CONFIDENTIAL

1. RIGHT TO BUY: ANTI-AVOIDANCE AMENDMENT

The Committee had before them letters of 9 July¹⁹⁸⁰ from the Secretary of State for the Environment to the Home Secretary, of 10 July 1980 from the Home Secretary to the Secretary of State for the Environment, of 14 July 1980 from the Lord Chancellor and from the Solicitor General to the Secretary of State for the Environment, and of 15 July¹⁹⁸⁰ from the Secretary of State for the Environment to the Home Secretary ^{about}

amendments to the Housing Bill to ~~ensure~~ ^{prevent} evasion of the right to buy ~~provisions~~.

THE SECRETARY OF STATE FOR THE ENVIRONMENT said that an amendment to ^vprevent local authorities evading the right to buy ~~on a large scale~~ had been included in the list of essential amendments that might be controversial attached to his letter of 19 June 1980 to the Lord President. The Chief Whip, Lords and the Minister of State, Department of the Environment (Minister for Housing and Construction) had agreed that the amendment should be tabled on Report. The need was to block two loopholes. The first related to the ability of local authorities to dispose of property without obtaining necessary Ministerial consent and for the purchaser to get good title by virtue of section 128 of the Local Government Act 1972. This would be a continuing ~~problem~~ ^{possibility}.

The second related to disposals of some of the housing stock on short leases which authorities could legitimately make until the provisions in part V of the Housing Bill came into force. The Lord Chancellor and the Solicitor General had put forward objections of substance to his initial proposals. He proposed therefore to adopt a different approach. The first loophole could be blocked by disapplying section 128 of the Local Government Act 1972. Disposals of individual dwellings to sitting tenants

Unless the Bill were amended.

or to other individuals wanting a dwelling for use as their only or principal home would continue to have the full protection of the section. But if an authority disposed of its housing stock outside the general consent ~~§~~ for a special consent ~~§~~ in other circumstances, section 128 would not apply and the transaction would be void. ^{tabling of the} The amendment that would be required would however draw attention to the second loophole. Local authorities could at present divest themselves of properties without his consent by granting short leases of up to seven years. The bill as drafted would block off the loophole once it came into force. But authorities would still be able to divest themselves of property in the ^(of about three weeks) period before Royal Assent, thus frustrating the Government's intentions. To overcome this he proposed that the amendment should have effect from the day after it was tabled. Such a provision had a parallel, if not a direct precedent, in ^{other cases} changes in taxation ~~which~~ came into force on the day on which they were announced.

THE LORD CHANCELLOR said that the Secretary of State for the Environment's latest proposals, which followed ~~of~~ discussions between officials, overcame most of the objections that he had identified. He remained unconvinced ^{however} of the need for amendments of this nature; while it was in theory open to authorities to dispose of their housing stock in order to frustrate the Government's intentions, it was unlikely that in practice they would wish to do so. The first amendment would mean an increase in bureaucracy and in the power of the executive; he would not however wish to press his objection to it. But the second ^{proposed} amendment was clearly retrospective in its effect. It would create a

dangerous and damaging precedent, and would be extremely controversial. He could not support it.

THE SOLICITOR GENERAL said that he had had two main objections to the Secretary of State for the Environment's initial proposals. They would have called into question the validity of completed transactions. And they would have given the Secretary of State power to make unrestricted provisions; the exact powers ^would more properly have been prescribed with more certainty. The Secretary of State's new proposals met both of these objections.

In discussion it was argued that the Housing Bill had deliberately been drafted on the assumption that certain authorities would do all they could to block council house sales. There was evidence that ^{some authorities} ~~they~~ had been exploring the legal options that would be open to them. They would be careful not to disclose their hands until it was too late for the Government further to amend the Bill. The Government would then appear to have been outmaneuvered, and would be exposed to much criticism for ^{having failed} ~~setting~~ to give tenants the right to buy. Against this it was argued that councils which sought to frustrate the right to buy would themselves be running very great political risks. The Government might well benefit from their attempts so to do. It would be wrong to lay too great a weight on the possibility of avoidance. Authorities were unlikely to be able to act sufficiently quickly to anticipate the Bill coming into effect. Government supporters on any authority that sought to do so would undoubtedly bring the matter to the Government's attention. It

CONFIDENTIAL

would be open to the Government to consider introducing a short Bill to prevent such obvious manoeuvres being successful.

In further discussion it was argued that the two amendments were in practice closely connected. But while the first amendment was acceptable to the Committee, the second amendment raised very great difficulties. The introduction of an element of retrospection was not without parallel in taxation and nationalisation legislation. But it would set a very dangerous precedent and would be extremely controversial. It would require lengthy debate in the House of Lords, and this could jeopardise the timetable for the Bill. There were other approaches that might overcome the problem. It should be possible to secure an injunction to prevent an authority disposing of property without requisite Ministerial consents if that were seen to be its intention. If it appeared that an authority had made a disposal for ulterior motives the decision might be subject to judicial review. This might also overcome the related problem, which had not previously been drawn to the Committee's attention, of appropriation by an authority of its housing stock for other purposes which would remove it from the scope of Part V of the Bill. Urgent consideration should be given to these possibilities.

THE HOME SECRETARY, summing up the discussion, said that members of the Committee differed in their assessment of the risk of local authorities seeking to frustrate the operation of the Bill in the ways suggested, but they agreed that the amendment to block off the first loophole should be tabled as soon as possible for the report stage of the Bill. A majority of the Committee had very grave objections, both political and legal, to the second amendment. If, in practice, authorities did seek to frustrate the Government's intentions, there was a possibility that existing legal remedies would overcome the difficulties. The Law Officers, in consultation with the Lord Chancellor, the Secretary of State for the Environment, and the Minister of State, Department of the Environment (Minister for Housing and Construction) should consider urgently whether it would be possible to safeguard the position during the period before the Bill received Royal Assent without further amendment. It was, of course, open to the Secretary of State for the Environment to come back to the Committee with proposals for a further amendment which, if it were required, would have to be put down on Third Reading. It was clear, however, that the Committee would not look with favour on any amendments that involved retrospection.

CONFIDENTIAL

CONFIDENTIAL

The Committee -

1. Agreed that the Secretary of State for the Environment should arrange for an amendment to be tabled to the Housing Bill at Report stage which would disapply Section 128 of the Local Government Act 1972 on the lines of that enclosed with his letter of 15 July 1980 to the Home Secretary.
2. Invited the Law Officers, in consultation with the Lord Chancellor, the Secretary of State for the Environment and the Minister of State, Department of the Environment (Minister for Housing and Construction), to consider whether it would be possible to overcome the problem of disposals or appropriations before Royal Assent by means of existing legal remedies; and if not, to consider whether additional safeguards might be incorporated in the Bill without having recourse to retrospection, and to report the outcome to the Committee.

CONFIDENTIAL

PA
MS

HOUSING BILL: ANTI-AVOIDANCE

At H Committee this morning the Committee agreed an amendment to be tabled which would prevent local authorities, to some extent, avoiding the right to buy provisions of the Bill. They did not agree an amendment which would incorporate an element of retrospection by backdating their enactment to now, a provision which would nullify actions by local authorities in granting leases.

DOE Ministers believe that this gap would be potentially dangerous. The Secretary of State, therefore, would like to discuss with the Prime Minister the action to be taken, if any, and whether or not a discussion during the Parliamentary Business section of Cabinet tomorrow would be helpful. The Home Secretary has been consulted by the Secretary of State and has suggested that he sees the Prime Minister very quickly on all this.

[DOE]

MS

16 July, 1980

Housing

PRIME MINISTER

After last week's Cabinet discussion about the scope and number of Housing Bill amendments, you may like to glance at these H minutes, recording decisions on the more difficult amendments.

1. Right to buy where the Landlord does not own the freehold.

The Committee agreed not to table an amendment to extend the right to buy to leasehold properties by Affirmative Order; and asked Mr. Heseltine to have urgent talks with major public sector bodies to see how far it would be possible to proceed by agreement in extending the right to buy to the tenants of leasehold dwellings.

2. Number of amendments.

The Committee sent the Chief Whip (Lords) and Mr. Stanley away to go through the list of amendments again with the intention of reducing the number of amendments which should be tabled.

MAD

mb

23 June 1980

✓
MAD
mb
30/VI

(all the time that
numbers of leasehold / lets
can go ahead where
LA. own the freehold
mb.



Housing

10 DOWNING STREET

THE PRIME MINISTER

17 June 1980

Dear Horace.

Thank you for your letter of 13 June, about homesteading and home loans.

I appreciate the importance for you of the homesteading scheme. I have now had a chance to look into the position, and I believe that Nigel Lawson and John Stanley have now concluded that they will be able to help you on homesteading. I would be grateful if you could keep this confidential until they are ready to make their decision public.

Yours

Anthony

Sir Horace Cutler, O.B.E.

—

PRIME MINISTER

Horace Cutler has written to you, following your discussion at the National Executive dinner, about homesteading and home loans.

As you know, the Treasury/DOE argument has now been resolved in a way which will ensure that interest on homestead mortgages will continue to be waived during the initial period.

Would you like to reply to Sir Horace as in the attached draft? Would you like this correspondence copied to Messrs. Lawson and Stanley on a personal basis?

16 June 1980

R1616

From SIR HORACE CUTLER, O.B.E.
LEADER OF THE GREATER LONDON COUNCIL
THE COUNTY HALL, SE17PB
Telephone 01-633 3304/2184

13 June 1980.

Rt. Hon. Mrs. Margaret Thatcher, M.P.,
Prime Minister,
10 Downing Street,
London, S.W.1.

Dear Margaret,

It was good to see you in such great form at the National Executive dinner on Wednesday evening and I am glad to take advantage of the offer you made by writing to you about homesteading and home loans.

First I ought to explain that, although by coincidence I have written separately to you recently on another matter, I try to avoid adding to your very heavy load and in this particular instance I had been assured by your colleagues that you were aware of the facts.

Our problem with homesteading is not lack of money, although a few million more for the programme would be useful. What we are facing is the possibility that the Housing Bill as it now stands will halt our present homesteading scheme because it will not allow us to waive interest repayments during the crucial first year or two during which the new owner carries our essential work ("sweat equity" as we call it).

I do not think I need bother you with the details. Suffice it to say that there is apparently a Treasury-DoE difference of opinion. Meanwhile the Bill itself has reached Committee in the Lords. We have an amendment ready which we believe will meet the case but what we need is high-level backing for it! It goes without saying that, given the policy direction and philosophy of both the Government and the GLC, the loss of homesteading due to an interdepartmental technical wrangle is going to look very odd indeed.

Where we do have great difficulty due to shortage of funds is with home loans generally. Notwithstanding that we have made and are continuing to make the most swingeing cuts in our new construction programme (reduced by over 90%), the reduction in our HIP allocation has forced us to stop lending.

This means that after having pushed home ownership throughout the last three years we have had to shut down the programme. We are having to disappoint literally thousands of aspiring purchasers who want to live in Inner London nearly all of whom, by definition, have no chance of obtaining a loan elsewhere. Sales of Council dwellings, which are merely book transfers, are unaffected.

P.T.O.

We do understand the need to contain both expenditure and the PSBR; but I have always stressed the difference between spending and investment. In the case of our home loans, there is no requirement for new borrowing as our new loans are more than covered by payments being received.

If there is anything you can do on either matter my colleagues and I will be more than grateful but for the moment the threat to the homesteading scheme is the more immediate and therefore the more dangerous.

With best wishes

Yours ever

Harold.

PRIME MINISTER

Mr. Lawson is coming at 5.30 in response to your enquiries about the Treasury/Environment disagreement on local authority mortgage interest rates.

Papers are:

- A. Mr. Stanley's draft paper which you saw over the weekend - due to be taken at H on Thursday.
- B. A letter from Mr. Heseltine to the Chancellor of 1 May summarising the history of Ministerial discussion on these issues, and making new proposals.
- C. The Chancellor's reply of 15 May confirming that the Treasury maintained their objections and wished to see the matter discussed again in H.

I understand that Mr. Lawson does not intend to table a separate paper, but that he will wish to argue the Treasury case in Committee.

9 June 1980

PRIME MINISTER

I understand that you spoke to John Stanley on Wednesday evening about the Housing Bill provisions on local authority mortgage interest rates. You invited him to let you see a copy of the paper he will be putting to H Committee. Here it is.

This is his draft, which is still under discussion with the Treasury. I think it likely that Mr. Lawson will choose to put in a dissenting paper - this argument has been running for some weeks, as the provisions proposed by the Environment Ministers are actually outside the scope of decisions taken earlier. The matter is scheduled to come before H Committee next Thursday.

Do you want us to inject any comments from you into the discussion, through any or all of Mr. Heseltine, Mr. Lawson and Mr. Whitelaw as Chairman of the Committee?

It is vital to keep the House leading
MP

6 June 1980

It is vital to keep the House leading. The U.K.C. have the money and the houses. We must not let them do - we get it. Not

*1.
I've seen it the Chamber.*

LOCAL AUTHORITY MORTGAGE INTEREST RATES: AMENDMENT TO CLAUSE 105
OF THE HOUSING BILL

1. H Committee agreed on 18 September and 27 November (H(79)10th and H(79)17th) to a regime for local authority interest rates which will require local authorities to charge, when they grant mortgages, the higher of either their "pool" rate or the building societies' rate. Its decision has been incorporated into Clause 105 of the Housing Bill.

2. We are concerned that the provisions of the Bill incorporating this decision may be too rigid to deal with circumstances which we may face in the future. We cannot at the moment foresee precisely what these circumstances might be. But one particular instance (the GLC's homesteading scheme) illustrates how the interest rate regime might create considerable difficulty, and why we are asking the Committee to agree the introduction into both the Housing Bill and the Tenants Right etc (Scotland) Bill of a general order-making power to permit relaxations of the Clause 105 regime.

3. The GLC's homesteading scheme is designed to enable a person who is willing to put time and money into improving a run down property to be able to do so even though he is just on the threshold of home ownership. The essence of the GLC's scheme is that a house in poor condition (needing a minimum of £2,000 spent on repairs) and empty for at least 2 months is bought by a purchaser who undertakes to put

it into good repair and decorative order during a period of 1, 2 or 3 years during which payments of interest on the associated GLC mortgage are waived and repayments of capital deferred. Improvement grants are usually obtained from the relevant London Borough and, subject to income provisions, loans for the repair and improvement works can be obtained from the GLC. Repayments on such loans start immediately.

4. The GLC have completed about 660 sales under these arrangements in the 3 years in which the scheme has been operating; their current target is 1,000 by the end of 1980. In the GLC's view homesteading would collapse if they are prevented from granting a waiver of interest for up to 3 years which would be the case under the Bills as now drafted. The Bills as now drafted only permit deferring interest, but the effect of deferring interest for 3 years on a typical £15,000, 25 year annuity mortgage, assuming a mortgage interest rate of 12½%, is to increase the mortgage debt by over £6,000 (to £21,360). The mortgagor's gross monthly payments in the fourth and subsequent years would be £241 where interest is deferred as against £169 where interest is waived. This shows there must be a very serious risk that if waiver of interest is not permitted then the homesteading scheme will suffer substantially. I do not think that we can accept this risk for a scheme to which our political colleagues on the GLC are highly committed and with which a number of senior Ministerial colleagues, including the Prime Minister, have been publicly associated.

5. We therefore ask our colleagues to agree that an amendment should be made to the Housing Bill and to the Tenants Rights etc (Scotland) Bill which would allow the Secretaries of State, after consultation with the Treasury, to make an Order varying the local authority

mortgage interest rate regime in Clause 105. The detailed way in which this power would be used would obviously be a matter for discussion and agreement later between colleagues. The important requirement now is to give ourselves sufficient statutory room for manoeuvre in both Bills so that very desirable schemes such as homesteading can continue.

1-5 JUN 1980



1



DEPARTMENT OF THE ENVIRONMENT

2 MARSHAM STREET

LONDON SW1P 3EB

01-212 7601

MINISTER FOR HOUSING AND CONSTRUCTION

5 June 1980

Tim Lancaster Esq
Private Secretary to the Prime Minister
10 Downing Street
London SW1

Dear Lancaster,

The Prime Minister asked Mr Stanley last night if she could see immediately a copy of the paper going to H Committee next week on the provisions in the Housing Bill on local authority mortgage interest rates, with particular reference to homesteading. I attach a copy.

Yours sincerely,

R U Young

R U YOUNG
Private Secretary

DEPARTMENT OF THE ENVIRONMENT



PRIVATE SECRETARY TO THE
MINISTER FOR HOUSING AND
CONSTRUCTION

Mr Langford.

Mr Stanley evidently discussed this with
the Prime Minister yesterday, and Mr
Heseltine has approved this letter.

You ought to be aware that the draft
H Paper has not yet been cleared through
Treasury at either official or Ministerial
level.

Robin Long
PS/Mr Stanley
5.6.80.



NBAM yet
MP 1980

Treasury Chambers, Parliament Street, SW1P 3AG
01-233 3000

Housing

15 May 1980

The Rt. Hon. Michael Heseltine, MP

Dr Heseltine

HOUSING BILL : CLAUSE 98
RATE OF INTEREST ON LOCAL AUTHORITY
MORTGAGE ADVANCES

Thank you for your letter of 1st May, proposing the introduction of an order-making power which would exempt certain types of local authority mortgage schemes from the rules about local authority interest rates contained in Clause 98 of the Bill.

As you say, the policy in Clause 98 was decided by H Committee and you have made it clear that it is not your intention to reopen that decision but rather to exempt from the normal rules under Clause 98 a small minority of local authority mortgages. Although you say that the power would be used only in tightly specified circumstances your letter does not explain the principles that you would adopt in deciding which kind of mortgage should be covered by special rules.

The only indication of the intended scope of the power is your proposal to use it to legitimise three schemes which have been under discussion between your Department and the Treasury. I find it difficult to identify a common thread running through these three proposals, all of which involve subsidies or, put differently, lending at a loss. Even if this were itself acceptable for a limited selection of schemes, it is difficult to see by what rationale you would permit these schemes by the proposed order-making power yet justify refusing further exemptions from the Clause 98 rules which might be sought after the order-making power was introduced.

/As to the



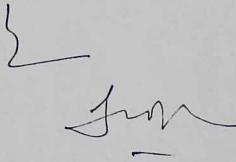
As to the three specific proposals, each has been the subject of a letter from your Department to the Treasury either at Ministerial or official level. On GLC's homesteading scheme, the correspondence rests with Nigel Lawson's letter of 21st March, of which I enclose a copy for other recipients of this letter. On the Epping Forest and Abbey National proposals, the correspondence rests with Treasury letters of 28th February and 9th April respectively. In all three cases, we have expressed reservations about the merits of what has been proposed, to which your Department has made no response. I am afraid your letter also makes no attempt to deal with our points. In the particular case of homesteading, you present no evidence to support the contention that waiving of interest payments - as opposed to the alternative of interest deferment which Nigel Lawson suggested - is crucial to the success of the scheme, but simply say that the GLC consider that it is.

I appreciate that you regard this as a politically important issue which you would like to resolve quickly in view of the timetable for the Housing Bill, but I have to say that your letter does not contain arguments that would persuade me to agree to what is proposed in the absence of serious discussion of the Treasury points.

Since you have copied your letter to Members of H I assume that you have it in mind to take the matter to H Committee in due course if we fail to reach agreement. I believe very strongly that it would be wasteful of colleagues' time to proceed to collective discussion until the arguments have been more fully assessed in discussion between our two Departments, enabling the issues to be presented clearly and comprehensively to colleagues if we do not reach agreement. Treasury officials are ready to discuss with yours if this would help to take matters forward.

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

GEOFFREY HOWE



15 MAY 1980





cc Mr Hansp Laboff

Housing

2 MARSHAM STREET
LONDON SW1P 3EE

My ref:

Your ref:

1 May 1980

Dear Chancellor,

HOUSING BILL, CLAUSE 98: RATE OF INTEREST ON LOCAL AUTHORITY MORTGAGE ADVANCES *will remain*

As you knew I wrote to John Biffen on 20 February about certain points arising on Clause 98 and Nigel Lawson responded on 21 March. My officials have also been in touch with yours about one or two other points on the Clause.

By way of background may I first refer to the H Committee discussions in the Autumn (H(79)10th) when the policy underlying Clause 98 was decided. At that time the Treasury argued that:

- a. no subsidy should be available to those obtaining mortgages from local authorities; and
- b. local authorities should be lenders of last resort.

It was agreed that to fulfil those two conditions a local authority's mortgage rate should never be lower than the building society rate nor should it be lower than the authority's "loans pool" rate.

We argued that:

- a. this would impose an unduly harsh regime on those obtaining mortgages from local authorities who, after all, were seeking such mortgages just because they could not obtain them from other sources, notably building societies; and
- b. if local authority mortgage interest rates were instead linked to the building societies' rate this would put local authority mortgagors in no worse position than the vast majority of mortgagors; over a run of years this would not lead to any subsidy call on local authorities given the historical relationship between the building society rate and local authority pool rates.

This issue was further considered on 27 November (H(79)17) when we discussed the difficulty of drafting Instructions given the lack of any statutory definition of a local authority loans pool.

The outcome was that no local authority should charge a mortgage rate lower than its pool rate, as subsequently defined in the Bill, and that no local authority's mortgage rate should be lower than the national standard rate which would be linked to the BSA prevailing rate. This policy was accordingly enshrined in Clause 98 and has led to predictably difficult discussions in Committee.

We have now had the opportunity to consider more closely some of the consequences of this policy particularly as it impinges upon the GLC's homesteading scheme, the Epping Forest District Council mortgage scheme, and the proposed scheme for the funding of council house sales by the private sector put forward by the Abbey National Building Society. The first issue has been considered with John Biffen and Nigel Lawson, and the second and third issues are those my officials have discussed with yours.

On homesteading, I understand that the GLC, despite their decision to curtail their mortgage lending activity following their HIP allocation, have nevertheless, earmarked funds for the homesteading scheme. They consider that the waiving of interest payments, as opposed to deferment, for a 3 year period is crucial to the success of the scheme and that without it homesteading will have to be discontinued. On the Epping Forest scheme, I know that your officials have reservations about the merits of the scheme but I consider it is an excellent example of a local authority initiative to encourage the private sector financing of council house sales and one, indeed, to which the Party has referred in its literature. Here again the ability to waive interest payment is crucial. On the Abbey National scheme, the AMA have told us that the present conditions imposed by Clause 98 look like closing the door on their pilot schemes with the Abbey National planned in Barnet, Birmingham and Trafford.

I believe that simply to require local authorities to apply the Clause 98 provisions without allowing room for consideration of how we might ensure that the homesteading scheme, for example, is not simply killed off is politically essential. I also consider that not to allow for the possibility of waiver of interest payments in return for private sector financing of sales would be wrong.

I suggest therefore that the best way forward is to introduce an order-making provision into the Housing Bill whereby the general application of Clause 98 could be relaxed in specified circumstances to accommodate the sort of schemes I have mentioned. Such an approach would give us much needed flexibility. We would make it clear that the Orders would be made only in tightly specified circumstances and that we would expect the vast majority of mortgages advanced by local authorities to be on the Clause 98 basis.

I should be grateful for your agreement to the introduction of such an Order-making power so that schemes like homesteading can be in being. We should need to make the necessary amendments to the Bill in the very near future and I should be very grateful therefore for your early reply.

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

Yours sincerely
David Wood

Ca MICHAEL HESELTINE

*(Under approval of the Secretary of State
and signed in his name)*

The Rt Hon Sir Geoffrey Howe MP
Chancellor of the Exchequer



- 1 MAY 1980



Housing
✓
MS

*From the Government Chief Whip
House of Lords*

19 February 1980

Dear Michael,

HOUSING BILL - TIMETABLE

Thank you for sending me a copy of your letter of 15 February to Norman St John-Stevas, which caused me some slight surprise.

I should like to point out that I have not worked out a proposed timetable for the Housing Bill. I have not discussed the matter at all with John Stanley and I have only spoken very informally with David Waddington. I cannot emphasise too strongly that it is not practicable to talk about a single Bill in isolation. For this reason, I could certainly not regard as assured even the basic assumptions of your timetable for the Bill in the Lords. I should be surprised if the Bill makes progress in the Lords before June, at any rate beyond a Second Reading. I cannot give any assurance that Royal Assent by the summer recess is practicable unless the Bill is to be given priority over other major measures. As the Lord President and I have pointed out before, it will normally be necessary for Bill teams to handle major measures from the same Department consecutively. Irwin Bellwin, for example, will be leading for the Government on the Transport and Housing Bills and, eventually, the Local Government, Planning and Land (No 2) Bill.

Having expressed these reservations, I shall of course do what I can to bring the Bill to Royal Assent by the summer recess, if that is now regarded as a deadline, but it will be necessary for collective decisions to be taken to establish what are the relative priorities in the programme. I am copying this letter to recipients of yours.

*Yours ever,
Batie.*

DENHAM

The Rt Hon Michael Heseltine MP
Secretary of State for the Environment

1969
FEB 19
11 12 13

1969 FEB 19 80

Housing Norm MS2 MARSHAM STREET
LONDON SW1P 3EB

My ref:

Your ref:

15 February 1980

HOUSING BILL - TIMETABLE

John Stanley, David Waddington and Bertie Denham have been discussing progress on the Housing Bill.

They have worked on the basis that it is essential that the Bill is enacted before the summer recess, in view of the fact that by then we shall have been in office for well over a year during which house prices have been rising whilst council tenants in Labour areas have still had no opportunity to buy their homes.

As a consequence, they have worked out a proposed timetable for your consideration which I enclose.

I understand that the constraints of the Lords timetable make it necessary for the Housing Bill's Committee Stage to finish by March 27th. This indicates that a guillotine motion is announced in the Business Statement on March 6th as indicated in the timetable. You will see that this would still mean that the Housing Bill would be guillotined after a longer number of hours and sittings in Standing Committee than the Education No 2 Bill. In addition, on all the present indications, the right to buy clauses will be finished by then so we will be able to show that the most controversial part of the Bill had been completed in Standing Committee without any timetable constraints.

I should be grateful for your agreement to a timetable for this Bill on the lines proposed.

I am copying this letter to the Prime Minister, the Chief Whip, Nicholas Edwards, George Younger and Bertie Denham.

MICHAEL HESELTINE

The Rt Hon Norman St John Stevas MP

C O N F I D E N T I A L

H O U S I N G B I L L T I M E T A B L E

C O M M O N S

<u>Jan.</u>	29	First Committee sitting	2 $\frac{1}{2}$	hours	
	31		2 $\frac{1}{2}$		
<u>Feb.</u>	5		2 $\frac{1}{2}$		
	7		2 $\frac{1}{2}$		
	12	A.M. and P.M. sittings start	5		
	14		5		
	19		10		
	21		10		
	26		10		
	28		10		
<u>March</u>	4		16 $\frac{1}{2}$		Assumes 6am finish.
	6		10		Business Statement at 3.30pm to announce a Guillotine debate
	11		10		
	12?				Guillotine debate in the House, after 22 sittings and 96 $\frac{1}{2}$ hours in Committee. (The Guillotine debate on the Education (No 2) Bill came after 19 sittings and 82 hours.)
	13)			
	18)			
	20)			
	25)			
	26)			
	27)			
					Date for Remaining Stages announced in the Business Statement for the week after the Easter recess
<u>April</u>	15)			
	16)			
	17)			
	18)			
					Dependent on the terms of the Guillotine Motion
					If the Lords are sitting on that Friday

LORDS

April 18 or 21 First Reading

(weeks beginning)

May 5 } Second Reading

19 }

June 2 } Committee

9 }

July 7 Report
21 Third Reading

This allows for a maximum of 6 sittings (about 30 hours) and a week's Whitsun recess

The Lords Whips have this particular date pencilled in

COMMONS

July 24 Date for Consideration of Lords' Amendments announced in the Business Statement

28, 29
or 30 CCLA

31 Royal Assent

15 FEB 1960





Housing VMS
DEPARTMENT OF TRANSPORT
2 MARSHAM STREET LONDON SW1P 3EB

The Rt Hon Norman St John Stevas MP
Chancellor of the Duchy of Lancaster
Privy Council Office
Whitehall
LONDON SW1

5 February 1980

I have seen the exchange between yourself and Michael Heseltine about providing Notes on Clauses for the Standing Committee on the Housing Bill.

I should correct one of Michael's statements. He says that the Department of Transport decided not to offer notes on clauses "but then changed their mind following Opposition protests." That is simply not the case. I decided from the outset that Notes on Clauses should be provided not least because in 1978 the Labour Government provided Notes on Clauses for their Transport Bill.

As Michael says it is of course a personal decision. My own view is that Notes on Clauses are appreciated by backbenchers on both sides and possibly avoid the need for some amendments. While of course some colleagues take the view that this is a basic right of backbenchers. For these reasons and in spite of the fact that the Transport Bill is bitterly opposed by the Opposition I decided to issue Notes on Clauses. We are not proceeding at the speed of light but there is no evidence to suggest that the provision of Notes on Clauses is contributing to the rate of progress.

I am copying this to the recipients of yours.

NORMAN FOWLER

147

-66FEB 1960



TO THE DIRECTOR, FBI
FROM THE SAC, NEW YORK
SUBJECT: [Illegible]

[The body of the letter contains several paragraphs of extremely faint, illegible text, likely typed or stamped information.]

[Faint signature and possibly a date or reference number at the bottom of the page.]

To: MR LANKASTER

Top Copy on Econ PA
Public Exp 167

From: SIR KENNETH BERRILL

Public Expenditure: Housing

620
 spoke to Berke -
 agreed but timing wrong.
 Better to consider this approach
 as part of 1980 survey. JZ

The over-riding need to cut the PSBR faces Ministers with difficult choices. To achieve the targets required it may be necessary to consider policy changes which in other circumstances would be politically impracticable. If so, the CPRS believes that the greatest scope lies in the field of housing. In opposition the Government identified this as a major area where savings in public expenditure could be achieved and where the market should be given greater scope. This note sets out some of the considerations which the Prime Minister may wish to have re-examined.

2. Much has already been done. The housing budget was cut substantially in the Autumn and further cuts are now envisaged. The Housing Bill opens up the scope for market forces through council house sales and the introduction of shorthold. Substantial subsidies remain, however, and these distort the market and the demand for new investment. It is for consideration whether the Government should aim at setting a timetable - even if a long one - for eliminating indiscriminate subsidies and concentrating on those in need. The balance between subsidies to the public sector and the special tax reliefs for owner-occupiers would have to be examined.

3. The condition of British housing is good by international standards. There is a surplus of dwellings over households of over 1 million (5% of the total stock). The quality is better than that of a number of more prosperous countries. It can be argued that, in the post-war period, the UK gave a priority to housing which many of our competitors reserved for industry.

4. Paradoxically, housing problems are often perceived as getting worse. There are still many unfit and poor quality houses. Local housing shortages persist and waiting lists remain long. The young and mobile have difficulty in getting homes. We would argue that this is largely the consequence of market-distorting subsidies.

5. The Case Against Indiscriminate Subsidies

- (i) The cost of subsidies is over £3bn a year (£1.8bn for local authority housing and £1.5bn for tax relief to owner-occupiers). Withdrawal over, say, 10 years would make a substantial contribution to the PSBR - even allowing for retention of rent and rate rebates for the protection of the poor. £3bn is equivalent to 4-5p off the standard rate.
- (ii) At present demand is artificially stimulated. For example there is little inducement for people to move to smaller dwellings as families

SECRET

get older and children leave home. A move towards economic charging would reduce unnecessary investment. It would leave the market to determine the allocation of resources and would lead to a more efficient use of existing housing stock.

- (iii) The excess demand causes high prices in the owner-occupied market, creating barriers for first-time buyers and windfall gains for existing owners. Where the price cannot rise, as in the public sector, rationing takes place by queuing.
- (iv) The Government is not prepared to subsidise food, fuel and other necessities. Why should housing be treated differently?
- (v) Withdrawal of subsidy would release resources for investment in productive investment; would remove one obstacle to mobility; and lead to manpower savings in local authorities and tax offices.

6. Any radical reform of housing finance would need to involve all ~~these~~ forms of housing tenure. The object should be to face each household with the true costs of the resources it pre-empt. Clearly this would mean higher rents for both the public and private tenant. But it would also mean higher costs for the owner-occupier. Would this be compatible with the Government's commitment to encourage owner-occupation?

7. In our view it would. Demand for home ownership is high because at a personal level there is no better investment that an individual can make. No other investment offers:-

- (i) tax-free capital gains;
- (ii) inflation proofing - over the past decade the rise in house prices has outstripped the RPI and comprehensively outperformed the Stock Exchange indices;
- (iii) cheap finance through the building societies (even now a negative real interest rate);
- (iv) an asset which conveys visible social status and which allows one to live rent free.

8. Moreover, gradual withdrawal of subsidies from all three sectors would not damage the relative attraction of owner-occupation. Nor, of course, would it necessarily leave individuals worse off since they are currently paying part of their housing costs through taxation.

9. In the case of the owner-occupier there is a problem of what constitutes the existing subsidy. From an economic point of view the best way to treat houses for tax would be to charge income tax on the rent which the owner would have had to pay to a landlord for the same house (Schedule A). But this would be difficult to administer and to justify presentationally.

SECRET

It would therefore, probably be necessary to fall back on the withdrawal of tax relief, though this is conceptually less satisfactory.

Distributional Effects

10. It is inevitable that any reform of the kind outlined above would make some people worse off and some better off. The obvious gainers would be those owner-occupiers who own their houses outright. They would benefit from general tax cuts while suffering no reduction in "subsidy". On the other hand new owner occupiers could suffer a marked fall in disposable income since the value of the tax relief they receive on the high outgoings of the early years of the mortgage would in most cases exceed the value of any general tax cut. So far as council tenants are concerned, some would be unaffected by the change since they would qualify for rent rebates. But council tenants as a whole would be worse off since they at present receive a greater subsidy per head than owner-occupiers, and would on average receive smaller tax cuts. The distribution effects should not be too severe if subsidies were withdrawn gradually.

Conclusion

11. The CPRS does not under-estimate the political sensitivity of housing subsidies. But we believe that it is the one area of policy which holds out some prospect of a substantial contribution to reducing the PSBR, while at the same time offering substantial longer-term benefits for the economy as a whole. If the Prime Minister agrees, she may feel that the Department of the Environment should be asked to review the possibilities quickly, in consultation with the Treasury and the CPRS. The groundwork has already been done over the past 3 or 4 years and the necessary material is readily available.

12. I am sending a copy of this minute to Sir Robert Armstrong.

RS

25 January 1980

SECRET



Chancellor of the Duchy of Lancaster

1. NJS to see
2. rd
MAD
28/1

PRIVY COUNCIL OFFICE
WHITEHALL, LONDON SW1A 2AT

Housing

25 January 1980

Dear Michael.

Thank you for your letter of 24 January about the attitude you have it in mind to take to the request by the Opposition to see the Notes on Clauses prepared for the Housing Bill.

As you say, this is a matter on which practice has varied and on which I think the Minister in charge of any particular Bill should continue to take the line he thinks is right and defensible, and I must be guided by your judgment on this.

When Notes on Clauses are made available they are, of course, provided to all members of the Standing Committee considering the Bill. The Housing Bill is a complicated as well as a controversial measure. It could well be argued - and certainly will be argued by the Opposition - that all members of the Standing Committee would benefit from having the Notes on Clauses made available to them. Before taking a final decision not to provide them, I hope, therefore, that you would satisfy yourself that you would have the support of our own back-benchers on the Standing Committee. You may also like to consider whether, if the Notes on Clauses themselves are not made freely available, there is any other explanatory material that could assist the Committee as a whole in their consideration of the Bill.

I am copying this letter to the Prime Minister and the other recipients of yours.

Ever yours
Michael Heseltine

The Rt Hon Michael Heseltine MP
Secretary of State for the Environment
Department of the Environment
2 Marsham Street

23 JUN 1980

1 2 3 4 5 6 7 8 9 10 11 12



2 N/S MS to see
2 PA

Housing

2 MARSHAM STREET
LONDON SW1P 3EB

MS 24/1

My ref:

Your ref:

24 January 1980

Leban

NOTES ON CLAUSES

We may face a minor problem with the Opposition next week at the first meeting of the Standing Committee on the Housing Bill. It is my firm view, which is shared by John Stanley who will be handling the Committee for the Government, that we should not give the Opposition the benefit of access to the Notes on Clauses. Malcolm Rifkind who is handling the Scottish Bill in Committee also takes the same view. I see no reason why we should assist the Opposition in what is going to be a particularly difficult Committee given their professed root and branch opposition to the main principles of the legislation.

However, I must be sure in taking this judgement that colleagues generally will support me in the event of Opposition attacks. I understand that with current legislation, the Departments of Trade and Industry have not issued notes on clauses but Education and DHSS have; and that the Department of Transport initially decided not to but then changed their mind following Opposition protests.

As the first meeting is on Tuesday, I should be grateful for early confirmation from you and Michael Jopling, to whom this is copied, that in taking this decision there will not be later pressure on me to change it. I am not, of course, seeking to establish any general principle. I believe that the Minister in charge of a Bill should, as in the past, take his own decision.

Because of the general interest of colleagues in this question I am also copying this letter to the Prime Minister, Cabinet colleagues and to the Minister for Transport.

for me

MICHAEL HESELTINE



24 JAN 1960



10 DOWNING STREET

PRIME MINISTER

It Committee will tomorrow
further consider the right
to a mortgage from a
local authority selling
Council houses.

Treasury see this as a
guaranteed last resort, after
trying a building society:
Mr Heseltine wants to make
it a 100%+ entitlement,
without insisting on a
prior application to the Building
Societies. The attached papers
set out the two cases.

M.T. I will
leave it to the
to write the
priority
H(80)2
on this
with
on this
with

P N Bristow Esq
Private Secretary to the
Secretary of State for the Environment
Department of the Environment
2 Marsham Street
LONDON SW1

7 January 1980

HOUSING BILL: FINANCIAL APPRAISAL

Thank you for your letter of 27 December.

My Secretary of State appreciates that it is undesirable for us to use different assumptions in the two appraisals in a way that could give advantage to the Opposition. He is therefore anxious in principle that there should be the closest co-operation between our Departments on this issue. But while the assumptions made and methods used should clearly be compatible my Secretary of State would think that there will have to be a separate Scottish calculation since some of the Scottish data could be significantly different.

Scottish officials had not been shown before this morning a draft of the text your Secretary of State has in mind but they are in touch with yours urgently on this. My Secretary of State would want to defer further comment until our officials have been able to advise him on this. Since our Second Reading is on the 14th, we should want to have something ready for publication by about the 10th at the latest, and my Secretary of State would therefore like to see an agreed text by Wednesday 9th at the latest.

Copies of this go to Mike Pattison (No 10) and to Alistair Pirie (Treasury).

JOHN S WILSON
Private Secretary

8 JAN 1968

1000
9
8
7
6
5
4
3
2
1

1000
9
8
7
6
5
4
3
2
1

CONFIDENTIAL

Housing 144

2 MARSHAM STREET
LONDON SW1P 3EB

My ref:

Your ref:

27 DEC 79

Dear John

HOUSING BILL: FINANCIAL APPRAISAL

My Secretary of State is grateful to your Department for drawing our attention to your work in preparing a financial appraisal of the effect of council house sales. We too are preparing a very substantial statement; indeed, from what has been said of your work it looks as if our paper will be a much more substantial one covering a wider range of options and assumptions than those on which you are working.

My Secretary of State has expressed his personal concern that there might be two separate appraisals using different assumptions which might offer the opportunity to the Opposition to attempt to drive a wedge between the work of both Departments. He considers that it would be wiser to have only one appraisal. He would like to suggest that officials of the two Departments get together to consider the paper which we are preparing here with the objective of agreeing a single paper. We hope to have completed our work very soon and would let your Department have a copy for discussion.

In view of the sensitivity of this issue I am copying this letter to Mike Pattison (No 10) as well as to Alistair Pirie (Treasury).

Yours sincerely

Paul Bristow

P N BRISTOW
Private Secretary

28 DEC 1978

9 12 1 2 3 4 5
8 7 6

CONFIDENTIAL

MS



cc HO
DOE
WO
CDLO
CSO
CO

10 DOWNING STREET

From the Private Secretary

21 December 1979

The Prime Minister has seen the Lord Chancellor's minute of 18 December, about the Housing Bill.

She has noted the arrangements for handling the Bill in a continuing absence of agreement between the Secretary of State and Treasury Ministers about the sources of finance for mortgages.

I am sending copies of this letter to John Chilcot (Home Office), David Edmonds (Department of the Environment), George Craig (Welsh Office), John Stevens (Chancellor of the Duchy of Lancaster's Office), Alastair Pirie (Chief Secretary's Office) and Martin Vile (Cabinet Office).

M. A. PATTISON

Ian Maxwell, Esq.,
Lord Chancellor's Office.

78



2 MARSHAM STREET
LONDON SW1P 3EB

My ref:

Your ref:

20 December 1979

Dear Mike

Thank you for your letter of 17 December about the right to a mortgage for council house tenants.

This matter has now been discussed by the Secretary of State and the Chief Secretary and officials are to discuss further. However, on the main point - the Treasury suggestion of an amendment to the Bill requiring evidence that a purchaser has sought building society finance first - my Secretary of State doubts whether agreement will be possible, and there may need to be further collective discussion.

I am copying this to Anthony Price and Norman Vile

Yours ever

D A Edmonds

D A EDMONDS
Private Secretary

Mike Pattison Esq
10 Downing Street

THE UNIVERSITY OF CHICAGO
LIBRARY



21 DEC 1979
6 11 12 1 10
5 4 3 2

UNIVERSITY OF CHICAGO

THE RT. HON. LORD HALSHAM OF ST. MARYLEBONE, C.H., F.R.S., D.C.L.

HOUSE OF LORDS,
SW1A 0PW

PRIME MINISTER

PRIME MINISTER

The Housing Bill will be published this week, but Mr Biffen and Mr Heseltine have not resolved their

HOUSING BILL argument.

MAD 19/12/79

We considered the Housing Bill at Legislation Committee this morning, taking account of your views as recorded in your Private Secretary's letter of 17 December. We agreed to the immediate introduction of the Bill into the House of Commons and publication on Thursday.

I am sorry to say, however, that the dispute between the Secretary of State for the Environment and Treasury Ministers about the sources of finance for mortgages has not been resolved. There will be further urgent discussions about it, and the matter may have to go to Cabinet. Depending on the outcome, amendments may have to be made to Part I of the Bill in Committee. The Government's intentions to make any such changes would then have to be announced to Parliament, probably at Second Reading, rather than to the press when the Bill is published.

I am sending copies of this minute to the Home Secretary, the Secretary of State for the Environment, the Secretary of State for Wales, the Chancellor of the Duchy of Lancaster, the Chief Secretary and Sir Robert Armstrong.

H: of S: M

18 December 1979

19 DEC 1979





Housing

Treasury Chambers, Parliament Street, SW1P 3AG

Rt Hon Michael Heseltine MP
Secretary of State
Department of the Environment
2 Marsham Street
LONDON SW1P 3EB

12 December 1979

Dear Michael,

HOUSING BILL: RIGHT TO A MORTGAGE

Thank you for your letter of 14 December.

First I should like to set the issue in the public expenditure context. Our public expenditure plans for 1980/81 assume receipts of about £200 million from the sale of council houses financed privately. The provisional assumptions underlying the agreed housing totals for the later years are for net receipts of £300 million a year.

We have now decided that we need to do much better on public expenditure as a whole and as you know, it is my view that we must look to housing for a large contribution to the further reductions. It follows from this that we must do everything in our power to obtain the receipts from council house sales which underlie the existing plans.

These considerations make it imperative that we abide by our policy that council house sales should be financed privately whenever possible. This intention was clearly stated in the original proposals approved by H Committee (H(79)19 Annex A para 11). You have put our policy on this clearly on public record, both in your consultation paper on the right to buy, and recently in the debate on 26 November on mortgage interest rates. On the latter occasion you said that "wherever possible, within the resources of the building societies mortgages should come from the private sector. That has to be the first line of appeal".

This clearly established principle is not however reflected in the draft Housing Bill which you are asking L Committee to approve tomorrow. This is in contrast to the "Tenants' Rights etc Scotland Bill" already published. From its first clause the Housing Bill highlights the tenant's "right to a mortgage", specifies that this entitlement is to a 100% mortgage and gives no indication that the right applies only where the tenant needs the money to finance the purchase. This goes beyond what H Committee approved. H(79)19 referred to our commitment "to making 100% mortgages available

CONFIDENTIAL

for these purchasers where necessary". The "where necessary" is vital.

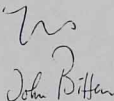
I accept that in your letter of 15 October (commenting on the H Minutes of 18 September) you declared your intention of not including in the Bill a statutory requirement on tenants to seek building society finance first. My support for such a provision was however made clear in my letter of 20 November, to Willie Whitelaw. My letter of 16 October - written before I had received yours of 15 October - dealt with what should be said in your consultation paper, not the substance of policy. We did not see your instructions to Counsel and until my officials received a print of the Bill on 6 December we had no idea that you intended to present an apparently unconditional right to mortgage in a manner which does not reflect the balance of our agreed policy.

Had I been consulted I should certainly have proposed a different approach on the lines of the Scottish Bill. I recognise that the present emphasis on the right to a mortgage may be too integral to the structure of the Bill to be altered in the time now available. The only way, therefore, in which the balance can be righted is to include a statement on the face of the Bill that before exercising the right to a mortgage the tenant shall have made a genuine attempt to obtain a building society mortgage.

I must also ask that Clause 9(1) is amended to remove the entitlement to a mortgage in excess of the purchase price, a proposition which has never been put to the Treasury for approval.

I attach a rough draft of amendments which would meet these points. Presumably there is time, before publication later this week, to incorporate them in the Bill.

I am copying this letter to the Prime Minister, Members of H and L Committees and Sir Robert Armstrong.



JOHN BIFFEN

P.S. I had approved the foregoing before seeing the letter of today from the Prime Minister's Private Secretary to yours. There is, I think, no question about the policy, namely that everything should be done to maximise the use of building society finance. There is clearly advantage in expressing this in the Bill as published. I therefore very much hope that it will be possible to make changes along the lines I have suggested before publication.

ROUGH OUTLINE OF SUGGESTED CHANGES TO DRAFT OF HOUSING BILL

Clause 12, page 10, line 7 at the end insert:

"(2A) Before serving a notice under subsection (1) above, a tenant shall take reasonable steps to obtain a building society mortgage and the notice shall contain a statement with supporting evidence that he has been unable to obtain a sufficient building society mortgage".

Clause 9, page 7, line 42, delete from "the aggregate" to the end of line 5 on page 8 and insert "an amount equal to the purchase price".

117 DEC 1979



CONFIDENTIAL

Please *pd* this copy.



10 DOWNING STREET

From the Private Secretary

17 December 1979

Dear Mr. Edmonds

The Prime Minister has seen a copy of your Secretary of State's letter of 14 December to the Chief Secretary on the right to a mortgage, and also a copy of his earlier letter of 11 December.

The Prime Minister considers it important that the Housing Bill should be introduced before Christmas. It fulfils one of the main election Manifesto commitments, and the Government needs to make progress with what is a lengthy and controversial Bill as soon as possible after the House reassembles in the New Year. Mrs. Thatcher therefore urges your Secretary of State and the Chief Secretary to do everything possible to resolve the differences which exist between them on the right to a mortgage before the Bill comes to Legislation Committee next Tuesday. She shares their concern that the hostile local authorities must not be allowed to frustrate the Government's policy. Equally, she wishes to see everything possible done to achieve a substantial injection of private finance into the sale of council houses.

If, in the event, your Secretary of State and the Chief Secretary cannot reach an accommodation before Legislation Committee, she recognises that the Government will have to face the prospect of the immediate introduction of the Bill with the matter unresolved, with a view to taking a policy decision as quickly as possible, and carrying through any necessary amendments to the Bill in Committee. She considers that, if the Government intends to insist that a tenant who wants a mortgage should approach a building society in the first instance, this should at least be stated when the Bill is introduced, even if the provisions cannot be included in the draft Bill in time. It would therefore be much better to resolve the difference now.

I am sending copies of this letter to Alistair Pirie (Chief Secretary's Office), Ian Maxwell (Lord Chancellor's Office), and to the Private Secretaries of the other members of Legislation Committee, as well as to Martin Vile (Cabinet Office).

ABO
for Mike Pattoan

CONFIDENTIAL

Ref A0977

PRIME MINISTERHOUSING BILL

An unresolved Treasury
DoF dispute threatens
publication of the Housing
Bill next week.

If the timetable is to be
maintained (and you told
1922 committee of it) the Bill
will have to be introduced
as drafted, with the Treasury
amendment introduced later if

A You will have seen from the letter from the Secretary of State for the Environment dated 14 December that there is an unresolved dispute with the Chief Secretary (his letter of 11 December, attached) about the right of a council house tenant to a local authority mortgage.

2. The Housing Bill as now drafted confers on tenants a right to a mortgage. The Chief Secretary's view has always been that the Government must seek the maximum injection of building society funds into this operation, in order to reduce the public sector borrowing requirement. Expenditure plans for later years provisionally assume that there will be £300 million a year of net receipts from council house sales. This will not materialise unless private finance is brought in. The Chief Secretary would therefore like to include in the Bill a provision which would oblige a tenant to seek a building society mortgage before he applied for a local authority mortgage.

3. The Secretary of State for the Environment, on the other hand, does not wish to oblige tenants under the Bill to seek a building society mortgage first. He fears that some Labour local authorities would use such a requirement as an excuse to frustrate the right to buy. He considers it necessary to include in the Bill an overt right to a local authority mortgage, so that local authorities cannot use the financial weapon as a means of stopping the sale of council houses. The problem has not arisen on the comparable Scottish Housing Bill, which avoids mentioning overtly the right to a mortgage.

4. The Bill is due to go to Legislation Committee on Tuesday, prior to introduction in the House before the Christmas recess. Unless the Secretary of State and the Chief Secretary reconcile their differences, the Committee will be unable to approve the Bill for immediate introduction. That would rule out the possibility of Second Reading until the last week of January. You yourself, I believe, have told the 1922 Committee that the Bill will be published next week.

5. Unless you are prepared to agree that the introduction of the Bill should be deferred until this issue is sorted out, there are only two possible ways forward. You could settle the matter in favour of the Secretary of State for the Environment; which would allow the Bill as drafted to be introduced; or, if you did not want finally to overrule the Chief Secretary without consultation when potentially there is such a large sum at stake, you could indicate that the Bill should be introduced as drafted, but hold open the probability of introducing amendments at Committee stage to meet the Chief Secretary's point. The Chief Secretary is not likely to regard this as a satisfactory solution: there are obvious difficulties about waiting to the Committee stage to introduce a provision which would qualify the tenant's right to a mortgage, and he might feel that the position had been prejudiced. But I am advised that it would not now be possible to agree that the Bill should be amended and to draft and insert the necessary amendments, without putting off the Bill's introduction until after the Recess.

6. I attach a draft letter to the Secretary of State for the Environment, copied to the Chief Secretary and the Lord Chancellor, and to other members of Legislation Committee.

Robert Armstrong

for

ROBERT ARMSTRONG

14 December 1979

DRAFT LETTER FROM THE PRIME MINISTER TO THE SECRETARY OF STATE
FOR THE ENVIRONMENT

Housing Bill

I have seen a copy of your letter of 14 December to the Chief Secretary about the right to a mortgage, and also a copy of his earlier letter of 11 December.

It is important that the Housing Bill should be introduced before Christmas. It fulfils one of our main election Manifesto commitments, and we shall need to make progress with what is a lengthy and controversial Bill as soon as possible after the House reassembles in the New Year.

I strongly urge you and the Chief Secretary to do everything possible to resolve the differences which exist between you on the right to a mortgage before the Bill comes to Legislation Committee next Tuesday. I share your concern that we must not allow hostile local authorities to frustrate our policy. Equally, we must do everything possible to achieve a substantial injection of private finance into the sale of council houses.

If, in the event, you and the Chief Secretary cannot reach an accommodation before Legislation Committee, then we shall have to face the prospect of the immediate introduction of the Bill with the matter unresolved, with a view to taking a policy decision as quickly as possible, and carrying through any necessary amendments to the Bill in Committee. But, if we are going to insist that a tenant who wants a mortgage should approach a building society in the first instance, we ought at least to say so when the Bill is introduced, even if we cannot get the provisions into the Bill in time. So it would be much better to resolve the difference now.



I am sending copies of this letter to the Chief Secretary, the Lord Chancellor and other members of Legislation Committee, and to Sir Robert Armstrong.



14 DEC 1989



2 MARSHAM STREET
LONDON SW1P 3EB

My ref:

Your ref:

14 December 1979

HOUSING BILL

Thank you for your letter of 11 December which I must say I read with some surprise. It is my clear view that what we are proposing in respect of a right to a mortgage is totally consistent with our Manifesto and Ministerial commitments and with "H" Committee decisions.

You make two points. First, that the Bill explicitly confers on tenants a right to a 100% mortgage; second, that you wish a statutory hurdle to be included in the Bill which tenants must jump by showing evidence of a refusal of a building society mortgage.

The Party and the Government have consistently stated the principle that a tenant would have a right to a 100% mortgage.

The Manifesto said "we shall also ensure that 100% mortgages are available for the purchase of council and new town houses".

Our election leaflet said:

"Q. Can I get a mortgage?"

"A. Yes if you wish and can afford the repayments, a 100% mortgage will be available".

In the debate on the Address the Prime Minister said "we will give to every council tenant the right to purchase his own home ... and with 100% mortgages for those who need them".

Our paper for "H" Committee considered on 21 June said "we are committed to the provision of 100% mortgages to finance these sales, where necessary".

All in all, it seems to me that the principle of a right to a mortgage has been set out with unequivocal clarity.

Your second point is that you are attracted by the thought that tenants should be required by statute to show evidence of refusal of a building society mortgage.

I have made my reservations about such a policy clear, as well as my intentions.

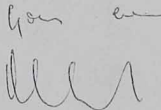
If authorities had a discretion to refuse a loan unless evidence were produced they would have a substantial opportunity for delaying the right to buy. Further, it seems to me to be a bureaucratic infliction on both the building societies and the individual to require them to produce a piece of paper to take to the local authority. I made this clear in my letter of 15 October when I said "We are not proposing a statutory provision in those terms as it would give certain local authorities the statutory grounds they will be looking for to delay and obstruct tenants trying to exercise their right to buy by making them chase from one building society to another. We shall, however, through the administrative mechanism of the right to buy procedures encourage private sector financing".

You did not reply explicitly to that letter nor raise the issue substantially until 11 December. However, you cleared our consultation document on the right to buy where again the policy is clearly set out. In your letter of 16 October you recognised that I intended to encourage tenants to look for a private sector mortgage but not to include a provision requiring tenants to establish whether private finance was available in the Housing Bill.

I had considered the issue agreed between us on the basis of that letter and earlier decisions. I do not think you should at this stage ask us to overthrow policies and agreements in respect of a fundamental area of the right to buy. We will certainly encourage the take up of private mortgages administratively. This, together with the new formula we have agreed for fixing the interest rate payable on local authority mortgages, will I am quite certain ensure a significant proportion of private finance for sales of council houses.

As you know, the Prime Minister has told the Parliamentary Party that the Bill is to be published next week. If you now seek to delay its publication clearly you will wish to inform the Prime Minister.

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



MICHAEL HESELTINE

The Rt Hon John Biffen MP



cc PPS
PS/FST
Sir A Rawlins
Mr Bailey
Mr Kitcatt
Mr Bridgeman
Mr Norris
Mr Denison
Mr Waghorn
Mr Cardona

Treasury Chambers, Parliament Street, SW1P 3AG

Rt Hon Michael Heseltine MP
Secretary of State
Department of the Environment
2 Marsham Street
London SW1P 3EB

11 December 1979

Dear Michael,

HOUSING BILL

My officials have now seen a draft of your Housing Bill. I am glad that it has been possible to draft the Clause on mortgage interest rates on the lines which I proposed in my letter of 23 November.

I am however concerned at the Bill's treatment of the eligibility for a local authority mortgage of tenants exercising the right to buy. This does not appear compatible with our policy that we should encourage private finance for council house sales wherever possible.

The Bill explicitly confers on tenants a right to a mortgage - a term which is highlighted by repeated reference; it states that this is a right to a 100% mortgage - indeed, more than 100% of the purchase price, since incidental costs are included; there is nothing to suggest that the local authority is to be permitted - far less encouraged - to satisfy itself that the tenant was unable to raise the finance privately.

I see a clear risk that local authorities would interpret these provisions as giving them no discretion to encourage tenants to seek a building society mortgage or - equally important - to provide a deposit from their savings. The unusually wide powers of intervention which will be available to you if authorities appear to frustrate the right to buy make it especially likely that authorities will react in the way I suggest.

I appreciate that in your letter of 15 October you expressed your intention of not obliging the tenants under the Bill to seek a building society mortgage first. You explained your fear that local authorities would use such a requirement as an excuse to frustrate the right to buy. I acknowledge that such a risk

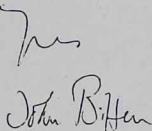
exists. But if we remove this pretext for delay, an authority which was determined to frustrate the policy would readily find others. Your Bill provides for the possibility of recalcitrance by means of your general powers of intervention mentioned above.

In short I do not believe that the risk of abuse by recalcitrant authorities justifies our giving the great majority of reasonable authorities no guidance on the face of the statute to seek private finance. There is a great deal of public expenditure at stake here: expenditure plans for the later years provisionally assume some £300 million a year of net receipts from council house sales: not one penny of this will materialise unless we get private finance.

For my part I am attracted by the general approach to this issue in the Tenants' Right etc (Scotland) Bill. This avoids mentioning overtly the right to a mortgage or the fact that it is 100%, and plays up the idea that the tenant will seek the loan he wants which may be less than the maximum. I should be grateful if you could incorporate a similar flavour into your Bill.

The Scottish Bill also requires the tenants to show evidence of refusal of a building society mortgage. I understand that you have some misgivings about the efficacy of this. It seems to me to be on the right lines. I should however be willing for our officials to discuss urgently other ways of achieving the desired objective.

Copies go to other members of H and to Sir Robert Armstrong.

A handwritten signature in dark ink, appearing to read "John Biffen". The signature is written in a cursive, slightly slanted style.

JOHN BIFFEN

174 DEC 1973
6 11 12 1
5 4 3 2
7 8 9



NBPM HAD
SCOTTISH OFFICE
WHITEHALL, LONDON SW1A 2AU

Hanson

CONFIDENTIAL

The Rt Hon William Whitelaw CH MC MP
Secretary of State for the Home
Department
Home Office
50 Queen Anne's Gate
LONDON
SW1H 9AT

22 November 1979

Dear Willie,

TENANTS' RIGHTS ETC (SCOTLAND) BILL
(FORMERLY THE HOUSING (SCOTLAND) BILL)

I thought I should just offer a quick comment on the terms of John Biffen's letter to you of 20 November.

I welcome John's comments on the first 3 lines in his letter and on the question of Building Society finance.

As regards his comments on the provisions relating to the time spent as a child of a tenant, I have decided to drop the particular provision to which he is objecting and it will not appear in the Print of the Bill which is about to be circulated to LE Committee. Our intention was not necessarily to go as wide as John has suggested but we were having difficulties in defining and drafting our intention in a satisfactory way. There may still be a point to be pursued here, and I have asked Malcolm Rifkind to think about it further in consultation with John Stanley. But it can certainly be met by an amendment at Committee Stage if that is agreed.

I believe that this clears the policy difficulties which have been concerning colleagues jointly.

My understanding is that the other matters which are being discussed by our officials and Treasury officials are not likely to give rise to any difficulties of substance.

Copies of this letter go to Michael Heseltine, John Biffen, other members of E Committee and to Sir Robert Armstrong.

Yours truly,
George

22 NOV 1979

10 11 12 1
9 8 7 6 5 4
3 2 1



NBPM

MAJ

Treasury Chambers, Parliament Street, SW1P 3AG

The Rt Hon William Whitelaw CH MC MP
 Secretary of State
 Home Office
 50 Queen Anne's Gate
 London SW1H 9AT

20 November 1979

Dear Willie,

HOUSING (SCOTLAND) BILL

I have followed with interest the exchange of correspondence on points of difference between the proposals in the Housing (Scotland) Bill and the Housing Bill for England and Wales. It may be helpful if I record my views on these, and on a couple of additional outstanding points. I shall be dealing separately with Mr Heseltine's letter of 14 November about local authority interest rates.

Cost Floor

I am grateful for George Younger's agreement, in his letter of 13 November, to come broadly into line with the arrangements which have been agreed for England and Wales so as to prevent the sale of new housing at a loss. For my part I am content that the cost floor rule in Scotland should relate to outstanding debt and that it should apply to houses first let after 16 May 1975 to reflect the later date of local government reorganisation than in England and Wales.

Residential Qualifications

Like Jim Prior, I support George Younger's proposal to ban residential qualifications for admission to council waiting lists and the use of residence as a criterion for allocation of council houses in Scotland. In view of the need for a freer labour market I should on balance prefer that a similar approach should be adopted in England and Wales. But if Michael Heseltine continues to see insuperable difficulties in this I believe it would be possible to justify the difference in view of the much larger role of the public sector in Scotland.

Discounts earned by periods in tied public houses

My own preference, if we had been starting afresh, would be to restrict the scope of this concession as much as possible. As Michael Heseltine noted in his letter to you of 16 October -

the extension of the availability of large discounts is expensive to the public purse. There is also the effect that the concession is likely to have on the future behaviour of the public employees in question: they will surely be more likely than in the past to put their names down on a council waiting list and thus perhaps influence councils to seek to increase their building programme.

On the other hand the commitments which I understand George Younger has given appear consistent with the proposals - for both Bills - approved by H Committee in June. I therefore accept that if the Bills have to be brought into line it would need to be on the basis of the Scottish policy. This may well have the adverse effect of swelling waiting lists for council housing in future. The same, however, is true of the right to buy in general. I see no way round this problem, other than the need for firm control of public expenditure to prevent a rise in council building on this account.

Time spent as child of tenant

A further difference between the two Bills not highlighted in the recent Ministerial correspondence is George Younger's intention to provide that where a child has succeeded to a parent's tenancy, time spent as an adult living with the parent should count for the right to buy and for the purposes of discount. I hope George Younger will agree to remove this proposal from his Bill. The proposal strikes me as overgenerous; since rent rebate rules encourage tenancies to be left in the name of the parent if the child is better off, the "child" would be getting the best of both worlds.

Building society finance

I welcome George Younger's intention to require a tenant applying for a local authority loan to finance his council house purchase, to show that he has been unable to obtain a building society mortgage. This will help to maximise the involvement of private finance which we need in order to secure public expenditure savings. I understand that tenants will have recourse to the courts if councils seek to exploit this provision to delay sales and this seems to dispose of the arguments in Michael Heseltine's letter of 15 October. I believe that if the policies on this point are to be reconciled it should be on the basis of the Scottish Bill.

Other Points

Discussions are proceeding between Treasury and Scottish Office with a view to resolving certain other outstanding points on the Scottish Bill.

Copies of this letter go to Michael Heseltine, George Younger, other members of H Committee and Sir Robert Armstrong.

Yours
John Biffen
JOHN BIFFEN

CONFIDENTIAL

20 JULY 1979



*Co advice requested**Housing 1/8/79*2 MARSHAM STREET
LONDON SW1P 3EB

*Top Copy on: Parliament,
R+Z,
Legislation*

My ref: H/PSO/14953/79

Your ref:

*4 September 1979**Dear Sir*

HOUSING BILL

You copied to me your letter of 29 August to John Stevens about progress with the legislative programme and asking for situation reports on certain controversial and complex Bills. It is the Housing Bill which concerns this Department.

attached

As you know from Mr Heseltine's minute to the Lord Chancellor of 28 August, he believes that it will not be possible to have the Bill ready for Introduction before 6 December at the earliest. We are unable to guarantee even that date, which would be the latest date for Introduction if there was to be a Second Reading before Christmas. At the moment the most we feel able to promise is Introduction before Christmas.

The reason why the Secretary of State can go no further is the difficulty posed by the right to buy provisions which determine the critical path of the Housing Bill. We are making good progress with the rest of the Bill, with Instructions to Counsel virtually complete and a first draft of substantial parts already received from Counsel.

There is a vital need to draft the right to buy provisions in such a way as to ensure that there is no room for evasion by recalcitrant authorities who are waiting to crawl over this legislation in order to find any loop-holes they can. The task of ensuring effective enforcement of selling off this type of housing which was not built or laid out for owner-occupation, and often has features such as shared amenities which are difficult to break up into individual units. The experience of authorities operating a voluntary sales programme has underlined this.

Instructions to Counsel on the main elements of the right to buy scheme have been drafted, but considerable work remains to be done in the next few weeks before they can be completed and despatched to Parliamentary Counsel.

The Secretary of State appreciates that the Prime Minister and other colleagues attach the greatest importance to ensuring that the right to buy cannot be circumvented. He has instructed officials,

who have been working on these proposals throughout August, to produce this part of the Bill at the earliest possible date which is consistent with achieving an effective scheme.

The Secretary of State will keep the Prime Minister posted of any significant changes in the timing prospect of the Housing Bill.

I am copying this letter to Ian Fair (Department of Employment), John Stevens (Chancellor of the Duchy of Lancaster's Office), Philip Hunter (Department of Education and Science), John Chilcot (Home Office), Murdo Maclean (Chief Whip's Office) and to Martin Vile (Cabinet Office).

Yessing

D A Edmonds

D A EDMONDS
Private Secretary

Mike Pattison Esq



Treasury Chambers, Parliament Street, SW1P 3AG
 O1-233 3000

19 July 1979

Dear Secretary of State,

HOUSING REDUCTIONS

..... We are to meet tomorrow in MISC 11 to discuss savings on the housing programme. I attach a table which shows how I suggest we might tackle the problem of making the full savings which we need. The areas in which I think we must press particularly for more are:-

- (a) Local authority investment. Approvals in 1979 are running at about 50,000 a year and starts are forecast to be about half the range underlying Cmnd 7439 (42,000 as compared with 80-90,000). Both these factors must affect next year's spend. If necessary, steps will have to be taken to ensure that local authorities live within the reduced provision.
- (b) Improvement grants. Provision in 1980-81 is £187 million. Last year's spend was £101 million. A reduction of £60 million to £27 million should be safe enough given that local authorities are not reporting any great additional demand.
- (c) Housing Associations/New Towns. Housing Associations and New Town housing together amount to some £675 million. It seems reasonable to look for more than the offer of £25 million. Once again the present trend of new housebuilding approval and starts suggests that existing provision may be over-generous.
- (d) Minor savings. The table shows other minor areas where we might prune a little more.
- (e) Subsidies. We agreed this morning in Cabinet that you should not be asked to find savings of as much as £150 million through rent increases. We shall need to discuss tomorrow how to make good the resulting shortfall.

The Rt. Hon. Michael Heseltine, MP.

/Finally,

S E C R E T



Finally, there seems to be no chance of making good the target reduction if your additional bid of £200 million on local authority mortgage lending and council house improvement is allowed. There is no Manifesto commitment to this and in the circumstances we agreed that it should be set aside.

I am sending copies of this letter to the Members of MISC 11, the Prime Minister, and Sir John Hunt.

Yours sincerely,

M. Bateson

pp. (GEOFFREY HOWE)

Approved by the Chancellor
and signed in his absence

S E C R E T

DOE (HOUSING)1. Secretary of State's Office

	£m
Council house sales	- 40
Municipalisation	- 130
Land acquisition	- 100
LA new housebuilding (60,000 approvals)	- 425
Net subsidy savings	- 1
LA mortgage subsidy	- 5
Option mortgage subsidy	- 50
First time purchasers	- 50
Housing Associations/New Towns	- 25
Total	- 826

Comments2. Additional Proposals

7½% saving on administrative costs	- 4
Land	- 25
Local authority investment	- 150

Target saving assumes cuts in administrative costs. Reduce to 78-79 level; allow for some disposals.

- In increasing order of severity:
- Assume continuation of present level of 50,000 approvals a year.
 - Reflect further shortfall stemming from reduced approvals/starts in 1979.
 - Savings on improvement of municipalised property.
 - Carry forward £5m 1979-80 Budget cut on 'other' expenditure.
 - Further controls as necessary on approvals/improvement plus
 - Consequent subsidy savings.

LA Mortgage subsidy	- 5	Delete provision
---------------------	-----	------------------

SECRET



	<u>£m</u>	<u>Comments</u>
Improvement Grants	- 60	Allows £26m increase on 1978-79 outturn
HAs/NTs	- 50	Implies 11% reduction on total programme; some at least may be shortfall given present level of starts.
Other	- 150	Subsidies plus additional savings to make good shortfall
	<hr/>	
Total	- 444	
Total 1 + 2	-1270	
Additional Bid	+ 5	Rent Allowances
	<hr/>	
Net Total	-1265	

SECRET

NOTE FOR THE RECORD ON THE PRIME MINISTER'S DISCUSSION WITH
THE SECRETARY OF STATE FOR THE ENVIRONMENT AT 10 DOWNING STREET
AT 11.30 A.M. ON 25 MAY 1979

Present

The Prime Minister
Secretary of State for the Environment
Minister of State for Housing (Mr. John Stanley)
Sir John Garlick
Mr. T. Heiser
Mr. M.A. Pattison

* * * * *

There was a wide ranging discussion of problems and prospects in the housing sector. The main themes of discussion only are noted below.

In response to the Prime Minister's invitation to state how the Government could begin to tackle the many problems in housing, the Secretary of State said the first legislation would come in the Housing Bill in the Autumn. This would deal primarily with council house sales, but also with a recasting of local authority housing subsidies. There should be a massive switch of resources into rehabilitation: the Government would use the project control mechanism for achieving this in the context of the public expenditure cuts.

The Secretary of State explained that, in preparing its strategy on housing, his Department had called in all major house building pressure groups and invited them to list the steps which they considered would help to increase the supply of housing. As a result of this, all conceivable Government initiatives were being examined. Over a period of a few weeks, a programme would be developed in each case. He then proposed to make a major speech showing that the requested steps had been set in hand, and

/requiring

requiring an equivalent response from the housing industry and housing groups.

The Prime Minister welcomed the promising start achieved by the Secretary of State in his Department. She drew attention to many individual problems. Should the older unsaleable blocks be demolished - and even some more recent ones. It seemed wise to sell empty houses, thus offering these as an alternative to those at present accommodated in unacceptable tower blocks etc. In recent years, an unhealthy environment had been created in many large scale public housing estates. Smaller units had much more chance of success. Local authorities must be persuaded to yield houses which had been bought and boarded up over a period of many years. Homesteading schemes should be encouraged more widely. Whilst the short leasehold scheme now being developed in the Department was a step in the right direction, this would not succeed on a large scale unless the court procedures for removing bad tenants could be expedited.

The Secretary of State drew attention to the limitation of current powers in some of these areas. He had the power to direct local authorities to release vacant land, but not to release vacant property at present. In respect of the request to speed the judicial procedure for tenancy violations, the responsibility would lie with the judiciary not his Department. He acknowledged the Prime Minister's idea that this should be built on to the small claims court principle.

In further discussion the Secretary of State drew the Prime Minister's attention to the steps proposed on the housing revenue account, the need to improve the information on housing waiting lists to produce real figures on housing need, and to consider the question whether private tenants should have first refusal on blocks of flats when the landlord chose to sell.

There was some discussion of the long term view of the private rented sector. The Secretary of State pointed to the

/long term

long term political uncertainty for the private landlords regardless of the measures taken by this Administration. He wondered whether some political guarantees could be offered by both parties. The Prime Minister saw no future in this approach.

The Prime Minister emphasised the long term objective of eliminating subsidies in housing for the great majority of people. At the same time, the rate of house price increases made it impossible for most young people to enter the market. The release of publicly owned housing must be sufficiently rapid to bring the lower end of the market back within the range of the majority of people.

Discussion turned to local authority finance, and local authority spending controls, in the context of the time taken to complete dwellings and the cost implications of this. The Secretary of State drew attention to the prospects on rates for next year, given the likelihood that local authorities would not cut current expenditure, but would load the rates. The Prime Minister agreed that it would be necessary to apply cash limits, and accepted the Secretary of State's advice that these would have to be set authority by authority to avoid strengthening the position of those who already controlled relatively large proportions of expenditure in their areas.

The Secretary of State drew attention to the rating revaluation exercise recently launched. The Prime Minister instructed that this should be suspended forthwith with legislation to be introduced if necessary. The Secretary of State said that this could be done in the forthcoming Miscellaneous Provisions Bill and that he would put it back to the Prime Minister. There followed a discussion of the principle of raising local finance through rates. The Prime Minister considered this to be a thoroughly unfair and unequitable system of taxation which she did not wish to perpetuate. The main burden of financing local authority expenditure should eventually be transferred to ^{taxes on} spending.

The meeting concluded with some discussion of the future use to be made of Somerset House, but no decision was reached.



cc Local Gov. A.
May 79

pa B
Housing

10 DOWNING STREET

From the Private Secretary

25 May 1979

Your Secretary of State called on the Prime Minister today to discuss housing policy.

For the most part, the discussion was wide ranging and exploratory. I do not propose to circulate any detailed note. Your Secretary of State outlined some of the measures he intends to include in legislation this autumn, and explained the way in which he had been exploring the various prospects and possibilities in the housing field. The Prime Minister made it clear that she was most encouraged by the start that he had made in these responsibilities, and that she was aware of the complex problems yet to be faced. She strongly supported his intentions to minimise controls at local level which cause expensive delay in building, and also his proposals to switch the emphasis from spending on new building to spending on rehabilitation. The Prime Minister also expressed her enthusiasm for a considerable expansion of home-steading schemes.

In discussion of proposals for short leasehold arrangements, the Prime Minister emphasised that in her view these arrangements would only work if ways could be found to expedite court procedures. Mr. Stanley said that this was now under discussion with the Lord Chancellor's Office.

Discussion later turned to local authority finance. The Prime Minister instructed the Secretary of State to cancel the rating revaluation exercise currently in progress. She said that, if there were problems in doing this, she would be ready to have it discussed in Cabinet at an early stage. The Secretary of State agreed to report to her on this shortly. The Secretary of State drew attention to the problems that could arise over rates in 1980, and proposed that this should be tackled by setting up separate cash limits for each authority. The Prime Minister agreed with this approach.

I am sending copies of this letter to Martin Hall (HM Treasury) and Martin Vile (Cabinet Office).

M. A. PATTISON

David Edmonds, Esq.,
Department of the Environment.

PRIME MINISTER

You are seeing Mr. Heseltine and Mr. Stanley at 1130 tomorrow to discuss housing. They will be accompanied by Sir John Garlick and Mr. Heiser.

I attach at:

- Flag A A note from the Cabinet Office
- Flag B A note from Sir Kenneth Keith
- Flag C The relevant extract from your speech in the Debate on the Address
- Flag D Mr. Heseltine's speech in the Debate on the Address
- Flag E The relevant passages from the Manifesto

Flags A and B both contain a useful summary of issues which you might like to pursue in the meeting.



24 May, 1979.

CONFIDENTIAL

Ref. A09612

MR. LANKESTER

Housing

You asked this afternoon for a quick brief for the Prime Minister's use when she sees Mr. Heseltine tomorrow to discuss housing. You have also asked in parallel for material from the CPRS.

Factual Background

Flagged below
in folder
2. The Prime Minister may care to glance at the most readily available sources of factual material. The most useful of these is the public expenditure White Paper issued in January this year (Cmnd 7439). The relevant pages are Nos. 90-102. The key table is that to be found on pages 90-94 which shows past and forecast expenditure on housing by both central and local government.

Flagged below
3. Other sources are the CSO's monthly digest of statistics where the tables on pages 100 and 101 of the April 1979 issue analyse, in detail, progress on the construction of houses over the past four years.

Flagged below
in folder
4. Finally the fifth report of the PAC published last month deals with Housing Associations and the Housing Corporation. This is an area which absorbs a lot of money and where the administration of the funds has attracted a good deal of recent criticism. The conclusions of the PAC are to be found on pages xii and xiii.

Topics for Discussion

5. A list of possible "chapter headings" for the discussion is set out below. It incorporates points which we know DOE intend to raise but goes beyond their list in some respects:

- (a) Supply and demand for housing: national surplus and local shortages.

The table on page 95 of the public expenditure White Paper is relevant here. We now have a 3 per cent surplus of dwellings over households nationally and have reduced the number of households "unsatisfactorily housed" by nearly half in the past eight years. It could be argued that we are near the point of breaking the back of the "housing shortage" which was so prominent in the decades immediately after the war. The problems now are of ownership and quality with absolute shortage a local phenomenon.

CONFIDENTIAL

- (b) Home ownership: the sale of council houses; provision of mortgage funds (a matter in which the Chancellor has a close interest); house prices; the general encouragement of private ownership through tax relief on mortgages, help for first-time buyers etc.; funds and land for private housebuilding.
- (c) The private rented sector: what can be done to increase the willingness of private owners to let property? The "shorthold" scheme?
- (d) Public sector housing: the overwhelming questions are cost and value for money. The public expenditure provision (local and national) in 1978-79 is £5 billion. Where can the savings be made? Other questions include direct labour; the effectiveness of the Housing Corporation and the letting policies of local authorities which put a major drag on labour mobility.
- (e) Quality: public sector housing policy - particularly in the "high rise" era - was an environmental disaster. The move to rehabilitation of older dwellings is welcome. How can local authority performance be improved?
- (f) The problems of the construction industry: construction for private owners has been remarkably stable over the past four years. Local authority construction has plummeted. In the light of the overall housing situation is the contraction of the industry inevitable or will the non-housing sector take up the slack?
- (g) Non-housing points: you may also, if time allows, want to go on to deal with other non-housing issues in the DOE field. The main area is of course local authority finance. Points which could be made are:-
- (i) Expenditure. Cabinet is about to set new guidelines for the Public Expenditure Survey. Final decisions will be taken in July. How do we make them stick in the local authority area - especially if there is to be a bonfire of controls? Are there functions which local authorities should now either leave to the private sector (e.g. waste collection) or hand over to central Government (e.g. police, of which central Government already pays 80 per cent)?

CONFIDENTIAL

- (ii) RSG. The main instrument of control. Is it enough? Should it be modified or supplemented? Are there workable alternatives e.g. should Ministers contemplate direct controls either over the totality of expenditure or over revenue-raising or should they fix RSG for a period ahead as a finite cash contribution to local authority finances and leave the authorities free to cope thereafter as they wish (subject only to their statutory duties)?
- (iii) Rates. The Manifesto firmly puts reform of the system into second place, with priority given to tax reform. But is it time to start thinking about longer-term alternatives?
- (iv) Structure. The previous Government talked of "organic change" - ~~i.e. going back to~~ single-tier authorities (the old county boroughs). Can all this be shelved again?
- (v) Water. The major industry for which DOE is responsible (Waterways and Canals barely count). Labour was planning a reorganisation to strengthen central control. Does this still go ahead?
- (vi) Transport. Do any problems remain on the boundary line with the now independent Department of Transport?
- (vii) Waste. What plans has Mr. Heseltine in the PSA - and is he yet in touch with Sir Derek Rayner?



for JOHN HUNT

22nd May, 1979

BUILDING

Permanent house building: summary of progress

TABLE 12.5

Number of houses and flats

	Construction begun				Under construction (end of period)				Completions			
	All houses and flats	For local housing authorities ⁽¹⁾	For private owners	For other authorities ⁽²⁾	All houses and flats	For local housing authorities ⁽¹⁾	For private owners	For other authorities ⁽²⁾	All houses and flats	For local housing authorities ⁽¹⁾	For private owners	For other authorities ⁽²⁾
United Kingdom												
1975	333,071	159,141	153,059	20,871	457,231	212,963	217,557	26,711	321,936	163,528	154,528	16,882
1976	338,927	149,874	158,382	31,624	471,335	210,090	230,489	40,555	324,755	151,824	155,229	17,702
1977	374,478	107,419	138,862	28,477	432,844	173,853	216,279	43,813	313,524	143,274	143,344	26,906
1978 ⁽⁴⁾	272,445	89,070	161,897	21,778	417,322	150,588	225,145	41,589	288,090	112,368	151,720	24,002
1977												
1st quarter	54,973	22,595	26,906	6,472	454,526	198,493	215,020	41,013	71,439	33,808	32,575	5,058
2nd quarter	78,038	31,359	39,505	7,673	455,121	194,215	211,022	43,827	76,444	35,640	35,394	6,410
3rd quarter	78,432	29,787	40,187	8,514	454,727	187,840	212,887	48,000	79,863	38,159	36,274	7,430
4th quarter	63,969	23,678	32,473	7,818	432,944	173,853	215,278	43,813	65,778	37,667	39,101	9,810
1978												
1st quarter	55,120	16,625	31,180	6,415	418,928	165,320	210,275	43,333	69,160	27,082	30,183	5,895
2nd quarter	84,188	30,384	47,672	6,112	425,805	166,557	218,755	43,483	74,291	29,147	31,982	5,562
3rd quarter	70,789	22,903	42,666	6,211	428,314	162,037	225,204	42,033	69,655	27,397	30,194	6,024
4th quarter ⁽⁴⁾	62,377	17,258	40,079	5,040	417,322	150,588	225,145	41,589	74,954	28,742	40,151	6,051
England and Wales												
1975	291,240	134,302	137,163	19,776	398,473	179,148	194,663	24,765	278,694	122,857	140,381	16,559
1976	294,284	126,677	138,347	29,670	414,707	181,870	194,453	33,404	278,660	124,152	138,477	18,031
1977	244,457	93,618	122,179	28,660	383,358	163,850	197,339	41,672	275,438	121,270	128,127	26,011
1978	239,043	76,666	140,745	19,632	368,955	135,768	194,439	38,728	253,470	96,752	132,422	25,756
1977												
1st quarter	48,669	19,681	23,630	6,358	401,459	173,620	186,895	39,044	61,578	27,663	29,188	4,747
2nd quarter	69,157	28,947	35,016	7,199	403,383	170,305	191,583	41,505	67,004	30,162	31,713	5,129
3rd quarter	70,432	26,590	35,436	8,399	402,672	165,846	194,220	42,600	71,076	31,493	32,741	7,285
4th quarter	66,209	20,400	28,102	7,707	393,358	153,850	187,853	41,672	78,781	32,398	34,505	8,890
1978												
1st quarter	48,677	16,263	27,389	5,045	371,439	148,928	183,205	41,306	60,620	23,209	32,000	5,411
2nd quarter	73,016	26,836	41,871	5,308	379,717	148,197	190,455	41,072	64,732	34,518	34,618	5,542
3rd quarter	62,158	21,007	36,250	4,591	379,767	145,274	194,346	40,147	62,123	23,935	32,955	5,622
4th quarter	55,193	15,560	35,245	4,388	368,955	135,783	194,439	38,728	65,990	25,001	35,165	6,798
Scotland												
1976 ⁽³⁾	31,671	18,621	11,965	1,085	45,427	26,722	16,938	1,779	34,323	22,784	10,371	1,163
1976	30,510	12,784	16,305	1,821	39,816	18,358	13,627	1,931	30,527	21,154	13,704	1,639
1977	22,471	9,133	12,631	707	34,860	13,157	20,025	1,778	27,320	14,328	12,132	360
1978	25,684 ⁽⁴⁾	7,563	16,666 ⁽⁴⁾	1,555	34,866 ⁽⁴⁾	10,794	22,148 ⁽⁴⁾	1,924	25,778 ⁽⁴⁾	9,928	14,443 ⁽⁴⁾	1,409
1977												
1st quarter	4,631	1,988	2,520	143	39,042	16,643	19,451	1,748	6,398	3,477	2,599	320
2nd quarter	6,255	2,043	3,115	492	37,002	15,567	19,496	1,939	7,295	3,924	3,070	300
3rd quarter	8,852	2,162	5,623	67	36,471	14,209	20,272	1,884	6,393	3,420	2,841	122
4th quarter	5,733	2,355	3,373	5	34,960	13,157	20,025	1,778	7,244	3,507	3,628	111
1978												
1st quarter	4,750	1,499	3,022	229	33,818	12,490	19,797	1,531	5,952	2,186	3,250	479
2nd quarter	8,391	3,115	4,641	635	34,774	12,505	20,509	1,760	7,435	3,100	3,929	400
3rd quarter	6,712	1,546	5,040	125	35,914	11,857	22,434	1,623	5,572	2,194	3,115	293
4th quarter ⁽⁴⁾	5,831 ⁽⁴⁾	1,403	3,863 ⁽⁴⁾	565	34,866 ⁽⁴⁾	10,794	22,148 ⁽⁴⁾	1,924	6,879 ⁽⁴⁾	2,466	4,149 ⁽⁴⁾	264
Northern Ireland												
1976	10,190	6,218	3,931	41	12,331	7,098	6,068	167	8,919	4,885	3,776	258
1977	13,053	9,274	3,710	69	16,002	9,982	6,730	220	9,582	6,818	3,046	16
1978	7,718	6,870	4,286	591	13,501	4,006	8,593	937	10,762	7,678	3,085	15
1977												
1st quarter	1,703	946	766	1	16,025	8,130	6,074	221	3,480	2,668	812	—
2nd quarter	2,678	1,764	880	32	15,386	8,340	6,943	253	2,105	1,554	611	—
3rd quarter	1,910	350	1,139	68	16,384	7,899	7,389	310	2,363	1,690	692	—
4th quarter	1,976	925	998	63	14,926	4,848	7,417	393	2,734	1,764	970	—
1978												
1st quarter	1,593	763	789	141	13,671	5,802	7,273	498	2,648	1,707	933	—
2nd quarter	2,762	1,433	1,160	169	14,214	5,858	7,798	681	2,119	1,470	645	—
3rd quarter	2,231	1,035	1,266	194	13,233	4,956	8,424	853	1,951	1,259	730	—
4th quarter	1,363	295	971	87	13,501	4,006	6,558	937	2,085	1,245	837	—

(1) and (2) See footnotes (1) and (2) to Table 12.6. (3) Owing to the re-organisation of Scottish local government in May 1976, the permanent housebuilding figures for Scotland are presently subject to some distortion.

(4) Provisional.

Sources: Department of the Environment
Scottish Development Department
Department of the Environment
(Northern Ireland)

BUILDING

Permanent house building: completions

Number of houses and flats

England and Wales					Scotland			Northern Ireland		
For local housing authorities ⁽¹⁾		For private owners		For other authorities ⁽²⁾	For local housing authorities ⁽¹⁾	For private owners	For other authorities ⁽²⁾	For local housing authorities ⁽¹⁾	For private owners	For other authorities ⁽²⁾
Houses	Flats	Houses	Flats							
69 788	73,632	179,647	17,855	9 548	27,616	7,870	644	6,626	3,276	299
61,751	77,666	178,028	14,912	10,611	33,222	7,498	738	7,180	3,770	149
75,650	72,369	198,230	15,043	10,404	32,011	8,719	1,258	7,924	4,076	121
68,406	71,442	160,491	12,886	10,938	33,932	8,327	370	7,170	4,213	142
63,013	71,861	147,810	14,274	10,308	34,360	8,220	646	7,692	4,038	104
55,475	61,740	166,809	13,189	12,563	28,577	11,614	592	9,102	4,701	113
46,253	47,382	169,854	14,571	9,037	19,593	11,835	564	7,023	4,296	149
41,632	37,767	159,053	15,360	10,345	17,349	12,216	469	6,966	4,452	139
50,475	48,948	115,403	14,223	12,124	16,192	11,239	916	5,412	4,312	349
65,319	64,528	122,591	17,400	16,456	22,794	10,371	1,168	4,895	3,776	268
70,034	64,118	123,402	16,075	10,031	21,154	13,704	1,669	6,518	3,043	18
68,463	62,817	114,863	13,264	20,041	14,328	12,132	860	7,076	3,056	17
53,164	43,688	121,919	12,223	22,576	9,926	14,443 ⁽³⁾	1,409	5,661	3,145	1
6,830	6,067	9,724	1,465	1,361				222	196	-
6,326	4,218	9,328	1,004	1,161	6,156	3,634	704	400	262	-
6,054	4,113	10,483	1,362	1,145				610	272	6
6,460	6,113	10,288	1,399	1,273				432	203	-
6,026	3,867	9,650	1,249	1,616	4,420	3,497	477	388	160	-
6,006	6,002	11,299	1,424	1,761				496	269	-
6,231	4,263	10,326	1,230	1,417				601	213	-
6,297	4,597	11,760	1,434	1,463	6,113	3,603	349	739	229	-
6,646	4,414	9,787	1,116	1,004				768	391	2
3,963	3,695	8,162	1,030	1,372				336	225	-
4,816	3,973	8,652	1,118	1,556	3,477	2,595	326	648	156	-
6,340	4,686	9,267	1,019	1,820				1,784	432	-
6,551	3,766	9,405	1,196	1,806				243	132	-
6,355	4,703	8,913	1,268	1,469	3,924	3,070	301	474	144	-
6,471	4,310	8,862	1,039	1,865				837	336	-
6,957	3,813	10,202	1,062	2,192				660	68	-
6,982	4,162	8,624	922	2,470	3,420	2,841	122	436	94	-
6,352	4,783	10,793	1,216	2,623				696	510	1
6,223	4,917	10,594	1,166	2,929				640	229	-
6,145	4,932	10,588	1,305	2,567	3,507	3,626	111	562	249	-
6,298	4,881	9,991	871	3,384				672	492	-
3,770	3,335	10,012	1,304	1,827				319	218	-
3,787	3,270	9,020	849	1,619	2,166	3,260	476	428	261	-
4,624	4,413	3,610	1,005	1,866				962	453	8
4,572	3,334	10,054	997	1,602				339	130	-
4,476	3,978	10,301	1,025	1,872	3,100	3,929	406	418	222	-
4,580	3,039	11,149	1,092	2,067				713	253	4
5,266	3,662	9,914	1,073	2,267				323	182	-
3,522	3,363	9,099	774	1,643	2,194	3,115	263	474	179	-
4,270	3,216	10,468	1,031	2,029				462	369	2
4,628	3,767	11,329	863	1,764				426	205	-
4,967	3,774	10,585	1,262	2,124	2,466	4,149 ⁽³⁾	264	436	230	-
4,283	3,617	10,178	958	1,906				384	402	3
2,096	1,856	8,241	897	1,591				207	152	21
2,327	2,425	8,138	485	1,432				339	93	20

⁽¹⁾ Includes completions for the New Towns and new town development corporations; in Scotland the Housing Association and, in Northern Ireland, the Northern Ireland Housing Executive. ⁽²⁾ Includes completions by the Scottish Special Housing Association and local authorities acting under the Housing Act powers and government departments.

Sources: Department of the Environment
Scottish Development Department
Department of the Environment
(Northern Ireland)

Conclusions

21. It is clear to us that the 1974 Housing Act has made a significant contribution to the provision of subsidised housing to rent by channeling a very large volume of public funds into the housing association movement. This has resulted in the rapid growth of new housing associations run by voluntary committees with varying degrees of competence and financial expertise.

22. Accommodation for approved categories of tenants is made available through housing associations at rents which involve a substantial element of subsidy. Paragraphs 16 and 17 above show that this subsidy must also ultimately meet both the whole of the administrative costs of the Housing Corporation and the recovery of any loss on the Corporation's own operations arising from differences between the interest payable on its borrowings from the National Loans Fund or elsewhere and the interest it can recoup. Further, any loans which the Corporation or registered housing associations obtain from sources other than the National Loans Fund are raised on Exchequer credit and are analogous to any other Exchequer borrowing.

23. In our view, the proposed review of the financial arrangements between DOE and the Housing Corporation must therefore recognise that the whole cost of providing and administering housing associations dwellings, apart from the relatively small proportion financed by income from the assessed rents, has to be met by the taxpayer. Consequently any revision of the administrative arrangements which results from this review must ensure that the methods of determining the subsidies and providing the finance, and the various administrative arrangements, minimise the cost borne by the taxpayer and provide the maximum effectiveness and accountability.

24. In the circumstances we have described we recognise that the responsibilities of the Housing Corporation for approving the registration and monitoring the activities of the large and growing number of housing associations with their widely varying managerial competence imposed a heavy burden upon its resources; and we accept that the Corporation had to choose which matters should be given priority. It is not surprising that the Corporation's section 19 inquiries should have disclosed serious weaknesses in the management of certain housing associations and, in a few cases, apparent evidence of the misuse of funds. We trust that the publicity which has been given to these cases, together with urgent pursuit of inquiries into any other such cases, will ensure that the necessary standards of efficiency and control are quickly re-established.

7. HOUSING

TABLE 2.7

	1973-74	1974-75	1975-76
CURRENT EXPENDITURE			
General subsidies			
Central government subsidies to local authority housing	639	995	1,042
Rate fund contributions to local authority housing	178	299	296
Subsidies to new towns and Scottish Special Housing Association	102	84	110
Housing association revenue deficit grants	9	13	16
Total general subsidies	928	1,391	1,464
Rent rebates			
Central government	320	287	257
Rate fund contributions	57	75	87
Rent allowances: central government contribution	52	61	59
Total income related subsidies	430	423	404
Option mortgage scheme	102	129	150
Rate fund contributions to local authority mortgage interest rates	—	—	—
Administration			
Central government	9	9	10
Local authorities	27	45	35
Total current expenditure	1,497	1,998	2,062
CAPITAL EXPENDITURE			
Local authority investment			
Land	148	164	176
New dwellings	1,000	1,308	1,612
Acquisitions	100	369	185
Improvements	712	578	467
Other	75	86	96
Total local authority investment	2,036	2,506	2,536
New towns and Scottish Special Housing Association investment			
Land	16	33	24
New dwellings	154	196	260
Acquisitions	—	—	—
Improvements	4	4	5
Total new towns and Scottish Special Housing Association investment	174	234	290
Sales (land and dwellings)			
Local authorities	-169	-32	-69
New towns and Scottish Special Housing Association	-75	-13	-17
Associated lending (gross)	130	19	38
Repayments	-32	-35	-31
Total sales	-145	-61	-79
Improvement grants by local authorities			
Local authority lending to private persons for house purchase and improvements	327	279	106
Gross	516	895	536
Repayments	-311	-203	-286

£ million

1976-77	1977-78	1978-79	1979-80	1980-81	1981-82	1982-83
1,138	1,127	1,195				
230	214	245	1,499	1,531	1,551	1,627
124	138	150	162	171	178	182
18	19	20	19	19	19	19
1,510	1,497	1,609	1,680	1,722	1,748	1,828
281	298	307	403	419	441	457
96	101	97	99	104	105	104
81	89	92				
458	490	496	502	523	546	562
170	162	155	191	279	311	328
—	—	—	11	10	9	8
9	9	10	12	9	9	9
43	41	43	43	44	44	44
2,190	2,198	2,314	2,439	2,587	2,668	2,779
121	62	62				
1,641	1,438	1,245	2,146	2,158	2,129	2,140
114	64	62				
461	475	623				
87	73	74				
2,423	2,113	2,065	2,146	2,158	2,129	2,140
15	6	10				
263	199	184	225	212	192	182
—	4	2				
5	11	16				
284	220	211	225	212	192	182
-74	-167	-286				
-17	-15	-18	-173	-172	-173	-173
53	94	181				
-40	-39	-44				
-77	-126	-167	-173	-172	-173	-173
91	82	150	365	367	369	370
230	155	182	-286	-248	-215	-216
-279	-315	-304				

(continued overleaf)

	1973-74	1974-75	1975-76
Loans and grants to housing associations			
Local authority schemes			
Capital grants by central government	—	—	39
Net lending	126	177	191
Housing Corporation schemes			
Capital grants by central government	—	—	123
Net lending	79	165	117
Total housing associations	205	342	469
Savings bonus and loans scheme for first time purchasers (net)	—	—	—
Other lending (net)	-6	198	-174
Total capital expenditure (net)	2,795	4,188	3,398
Total	4,292	6,186	5,460
Change from Cmnd 6721			
Changes from Cmnd 7049			

1. The plans for capital expenditure shown in this chapter allow for growth throughout the period above the level of expenditure now being achieved by the spending authorities. Current expenditure shows increases, compared with Cmnd 7049, mainly because revised interest rate assumptions lead to greater provision for housing subsidies and because of increased take-up of option mortgages. Among significant developments, the arrangements described in Cmnd 7049 for planning and controlling local authorities' expenditure through housing strategies and investment programmes are now in general use. The housing association movement has continued to expand. Important new energy conservation programmes have been introduced. Another major innovation is the home purchase assistance scheme for first-time home buyers. A Housing Bill, which is being debated during the present session of Parliament, contains new measures. These include a new scheme of government subsidies in the public sector in England and Wales; a new charter of rights for public sector tenants; more flexible arrangements for charging interest on local authority mortgages; and further assistance for the improvement and repair of existing homes. Some of these changes have already been implemented in Scotland.

2. Just over a half of public expenditure on housing is incurred by local government, new town development corporations, the Scottish Special Housing Association (SSHA) and the Housing Corporation. Central government makes its main contribution in three ways: subsidies to the housing revenue accounts of local authorities, the SSHA, new town corporations, and housing associations; assistance to private individuals through the option mortgage and first time purchasers' schemes; and capital grants to housing associations. The greater part of the expenditure of local authorities and other agencies is capital expenditure on new dwellings and improvements; and loans and grants to private individuals for house purchase and improvement. The capital programme is subject to cash limits. These apply directly to expenditure

1976-77	1977-78	1978-79	1979-80	1980-81	1981-82	1982-83
173	184	177	130	86	80	80
62	51	-8				
259	332	401	394	449	466	468
53	-22	-12				
548	545	558	524	535	547	548
—	—	—	—	58	103	100
-4	-4	-3	-2	-2	-2	-2
3,215	2,669	2,692	2,797	2,908	2,949	2,949
5,405	4,868	5,006	5,237	5,495	5,617	5,728
	-410					
	-83	-209	-86	+29	+100	

except for the Housing Corporation part of the housing association programme in England and Scotland, which is controlled by a cash limit on approvals of schemes ranking for housing association grant. The level of capital expenditure affects the level of subsidy, and thus of current expenditure.

Recent developments

Outturn for 1977-78

3. Public expenditure on housing in 1977-78 was some £410 million (8 per cent) below the level planned in Cmnd 6721 (including subsequent policy changes). Current expenditure was some £280 million (11 per cent) less than planned, chiefly because a larger than expected fall in interest rates reduced the requirement for housing subsidies. Capital expenditure was some £130 million (4½ per cent) below the planned level; this net figure conceals a complex pattern of performance on individual programmes. It represents a higher take-up than that forecast in Cmnd 7049; the chief reason for this was that the impact on expenditure in England of the low level of new housing approvals in 1977 was slower to appear and less in overall terms on the total programme expenditure than had been expected. The rate of spending generally seems to have increased in the second part of the year and the figures for a number of capital programmes have been increased compared with Cmnd 7049. Expenditure on improvement grants was, however, some £60 million lower than the original public expenditure provision and expenditure on land acquisition was less than had been expected.

Prospects for 1978-79

4. Returns available so far for 1978-79 suggest that the level of current expenditure will not differ significantly from the provision set out in Cmnd 7049. The outturn for capital expenditure could be at least £230 million less than the

provision in Cmnd 7049. This net figure contains some sizeable movements within the capital programme. The estimated level of repayments from local authority lending is up considerably; also, it seems likely that authorities will not utilise fully the resources provided for investment, particularly on house-building and the acquisition of land and buildings. Local authorities have, however, been alerted to the risk of underspend, and discussions held with the local authority associations to reduce that risk. There is, therefore, the prospect that the rate of spending may increase in the second part of the year. The figures in table 2.7 reflect this.

Summary of objectives

5. The Government's housing objectives remain as stated in the two Green Papers on housing (Cmnd 6851, chapter 2, paragraph 16, and Cmnd 6852, chapter 4). In summary they are: to provide a decent home for every family at a price within their means; to secure a more selective and discerning approach to housing policy which will enable the pressing needs of individuals and areas to be tackled effectively and urgently; and to make it easier for people to get the kind of home they want. It is the Government's view that housing should continue to be given a high priority and they will continue to make provision accordingly in the light of local requirements and capacity.

Progress and plans (capital expenditure)

Investment and needs

6. As the housing Green Papers (Cmnd 6851 and Cmnd 6852) demonstrated, there has been a striking improvement in housing conditions since 1951 coupled with the emergence and slow growth of a 'crude' surplus of dwellings over households. But the existence of a crude surplus does not in itself provide any direct indication of what level of investment in housing would be desirable. A clear margin is needed to permit movement within the system; a large number of houses are statutorily sub-standard or—a growing problem—in substantial disrepair; others are over-crowded or shared involuntarily by more than one household; some are unavailable to meet housing needs because they are second homes, tied accommodation, or in the wrong place; and some are unacceptable to prospective tenants or owners even though they may not be statutorily sub-standard or in serious disrepair.

7. The National Dwelling and Housing Survey (NDHS) conducted at the end of 1977 has enabled the assessment of housing progress in Cmnd 6851 (chapter 1, pages 9–15) to be updated and revised. The following table compares numbers of dwellings, households and households unsatisfactorily housed (using the conventional definition) in England in 1971, mid-1976 and the end of 1977.

	1971	Green Paper (mid-1976)	NDHS (end-1977)
Dwellings	16,065	17,060	17,360
Households	15,835	16,610	16,820
'Crude surplus'	230 (1.4%)	450 (2.6%)	540 (3.1%)
Households unsatisfactorily housed:			
Multi-person households sharing	365	265 ⁽²⁾	190
One-person households sharing ...	430	365 ⁽²⁾	330
Concealed housing	390	330 ⁽³⁾	245
Crowded households	200	125 ⁽³⁾	75
Households in unfit dwellings ...	980	640	570 ⁽⁴⁾
Households in dwellings that are fit but lacking basic amenities ...	1,670	880	700 ⁽⁴⁾
Total (free of duplication)	3,800	2,500	2,000
'Hard core' ⁽⁴⁾	2,600 (16%)	1,700 (10%)	1,500 (9%)

⁽¹⁾ Cmnd 6851 figures were for England and Wales.

⁽²⁾ Estimates calculated from 1971 data. NDHS results show these were slight overestimates. Table therefore slightly understates improvement between 1971 and mid-1976, and slightly exaggerates improvement between mid-1976 and end-1977.

⁽³⁾ Estimates; these items cannot be directly deduced from NDHS.

⁽⁴⁾ The hard core of housing need, as discussed in the text immediately below, is more fully explained in paragraph 3.09 of Cmnd 6851.

Of the 2 million households unsatisfactorily housed in 1977 (2.5 million in 1976), probably 1.5 million (1.7 million in 1976) were living in circumstances which are not acceptable by contemporary standards. This is the hard core of housing need; and it shades into housing conditions which though less unsatisfactory are not good enough and ought to be improved.

8. In the future a substantial number of dwellings will continue to become unfit through the normal process of ageing and through neglect; between 1971 and 1976 in England 50,000 to 70,000 dwellings a year became unfit in this way. Recent evidence suggests there could be a growing problem of dwellings which are neither technically unfit nor sub-standard but in serious disrepair. It will be necessary to replace dwellings unavoidably demolished to make way for new development. Accommodation will be needed for additional households: the increase expected in the next decade is 140,000 to 165,000 a year. There are households living in fit dwellings which are unsuitable for their needs, for example, elderly people who do not wish to go on living in accommodation too large for them.

9. A substantial level of housing investment will therefore be needed to meet both the backlog of housing need and future requirements. But the level of investment, the balance between new housebuilding and rehabilitation, and between public and private investment, all depend upon local circumstances and requirements, and upon the aggregation of individual decisions of local authorities, other housing bodies and private persons. The systems of local housing strategies and investment programmes (HIPs) in England and Wales and housing plans (HPs) in Scotland, introduced for 1978-79, are intended to bring about a better understanding of local problems and the way in which these should be tackled. They are also designed to enable central government to direct resources where they are most needed. These submissions by local

authorities confirm that, although much progress has been made in recent years in overcoming the worst housing conditions, much remains to be done. The present provision for public expenditure on housing investment reflects the Government's judgment of the HIPs and plans submitted and of authorities' capacity to implement their proposals, in the light of performance in 1978. In future years similar considerations will be taken into account in determining any future adjustments in the size of the programme and priorities within it. The Government and the local authority associations, through the Housing Consultative Council in England and the corresponding consultation arrangements in Scotland and Wales, are working together to develop the new systems to increase their ability to measure local needs objectively, and to improve methods of allocating resources to respond to identified needs.

10. Gross housing investment is shown in the following table.

Gross housing investment						£ million	
	Public sector investment ⁽¹⁾			Great Britain	Private sector investment ⁽²⁾	Total public and private sectors ⁽³⁾	
	England	Scotland	Wales		Great Britain		
1973-74	1,979	341	95	2,415	3,150	5,320	
1974-75	2,618	337	129	3,084	2,350	5,170	
1975-76	2,793	363	141	3,297	2,670	5,790	
1976-77	2,791	337	133	3,261	2,400	5,490	
1977-78	2,473	305	102	2,880	2,590	5,280	
1978-79	2,438	306	97	2,841			
1979-80	2,471	324	103	2,898			
1980-81	2,461	333	108	2,902			

⁽¹⁾ Investment by local authorities, new towns and SSHA and grants and gross lending to housing associations.

⁽²⁾ DOE estimates covering new building (including land) and grant-aided improvement. The price base is broadly comparable to 1978 survey prices.

⁽³⁾ Sales between sectors are netted.

New building

11. The investment level in the private sector has remained fairly steady following the recovery from the sharp fall in new building in 1974. Whether measured by starts or completions the annual figure for new private sector dwellings has not altered by more than 10-15 per cent from one year to another. This partly reflects measures to regulate the flow of mortgage funds developed by the Government and the building societies through the joint advisory committee on mortgage finance.

The figures for approvals in recent years of new housebuilding by local authorities, new towns, housing associations and the Scottish Special Housing Association are shown in the table below.

Permanent new dwellings approved: local authorities, new towns, housing associations and the Scottish Special Housing Association: Great Britain

number of dwellings

	Local authorities (including SSHA)	New towns	Housing associations	Total
1970 ...	112,600	9,800	9,400	131,800
1971 ...	107,000	8,200	12,000	127,200
1972 ...	90,100	13,700	12,400	116,200
1973 ...	92,100	11,800	10,100	114,000
1974 ...	121,500	13,400	17,200	152,100
1975 ...	127,000	19,700	24,800	171,500
1976 ...	119,200	14,300	35,300	168,800
1977 ...	74,000	9,700	24,400	108,100

There has been a sharp reduction in new housebuilding by local authorities and other public agencies compared with the peak levels of 1974 to 1976. Indeed, recent figures are lower than those originally allowed for in the expenditure provision. To some extent they show the shift which local authorities plan to make towards greater emphasis on rehabilitation, an emphasis which is being continued in the projected programmes contained in local authorities' housing strategies and investment programmes. But for some time yet new building will continue to represent by far the largest component of total housing capital investment; and the resources provided allow for a substantial continuing programme.

Rehabilitation

13. The renovation of dwellings which are substandard or in serious disrepair is a key element in housing policy. Most of these dwellings are in the private sector. Local authorities and housing associations currently spend about £200 million a year on acquiring and improving such dwellings. About £480 million is spent on rehabilitating purpose built public sector dwellings. Under the HIP and HP systems, subject to general guidelines, individual authorities decide their own priorities for improvement and acquisitions. The table below shows an overall increase in the number of improvements approved for grant or subsidy between 1976 and 1977. Increases in Scottish local authorities and in housing associations more than compensated for a reduction in the number of grant-aided schemes undertaken by private owners. Legislation now proposed includes measures to widen the availability of improvement and repairs grants and to relax some of the grant conditions.

	Local authorities	Housing associations	Private owners	Total
1970 ...	59,500	4,100	116,400	180,000
1971 ...	89,000	6,200	137,300	232,500
1972 ...	136,800	6,800	224,500	368,100
1973 ...	188,200	5,000	260,400	453,600
1974 ...	121,300	5,300	173,800	300,400
1975 ...	62,000	5,300	92,500	159,800
1976 ...	74,700 ⁽¹⁾	13,900	80,200	168,800
1977 ...	94,200 ⁽¹⁾	19,800	75,900	189,900

⁽¹⁾ Excluding Welsh housing revenue account dwellings.

Energy conservation etc

14. Two programmes to conserve energy in the domestic sector came into operation in 1978-79, one involving expenditure allocations and subsidy for the insulation of public sector and housing association dwellings and one of grants for insulation to private householders, under the Homes Insulation Act 1978, administered by local authorities. Provision has been made for £57 million to be spent in 1979-80. It is hoped to insulate some three-quarter million dwellings a year, and by 1988 all dwellings should have basic insulation. In addition local authorities in England and Wales have been given advice on remedial measures which may be required in dwellings with problems associated with all electric heating systems. In Scotland increased attention will be given to the treatment of severe problems of condensation.

Caravan sites

15. A scheme of government grants to finance the provision by local authorities in England and Wales of sites for gypsies was announced on 19 July 1978. Similar provision will be made for sites for travelling people in Scotland. Some £6 million is to be spent in 1979-80.

Loans and grants to housing associations

16. The high level of provision made for grants to housing associations reflects the expanding role of the housing association movement which is now responsible for building or rehabilitating some 40 to 50 thousand dwellings a year. The housing association programme will continue to be funded partly by loans from banks and other private sources as well as public sector loans from the Housing Corporation and local authorities. At November 1978, the loans outstanding under guarantee by the Housing Corporation amounted to £48 million. In 1979-80 housing associations financed by the Corporation are expected to incur expenditure amounting to £450 million of which up to £50 million will be financed from private sources.

Building association investment (including private finance): Great Britain

£ million

	1978-79	1979-80	1980-81	1981-82	1982-83
Land	37	35			
New dwellings	302	277			
Acquisition	77	86			
Improvements	190	184			
Total	606	581	543	554	556
Of which privately financed	41	50			

Assistance for house purchase

17. In addition to direct mortgage lending by local authorities (see table below) it is intended in consultation with the Building Societies Association to continue in 1979-80 the support lending scheme. Through this scheme, building societies make mortgage advances to prospective house purchasers nominated by local authorities. The provision for the scheme for 1978-79 is £300 million. In 1977-78 (the last year for which full records are available) 16,000 loans were made under the scheme in England and Wales.

Local authorities' loans to private persons for house purchase: England and Wales

number of loans

	New dwellings	Other dwellings	All dwellings
1970	2,600	41,500	44,100
1971	2,700	44,500	47,200
1972	1,900	43,300	45,200
1973	2,700	56,700	59,400
1974	4,600	70,800	75,400
1975	6,500	95,500	102,000
1976	2,000	25,600	27,600
1977	350	22,750	23,100

18. In addition, a Home Purchase Assistance Scheme, whereby first-time house purchasers who save for two years will become eligible for a government bonus and a loan of up to £600 which is interest free for five years, came into operation on 1 December 1978. Provision of £58 million has been made for 1980-81.

Progress and plans (current expenditure)

General assistance and housing costs

19. Cmnd 7049 showed separately total expenditure on housing subsidies and total tax receipts forgone through relief on mortgage interest for owner-occupiers. The tables below give additional information on the significance for individual households of both these forms of assistance with housing costs.

(a) Assistance to housing in the main sectors through subsidies and tax relief

(i) Public sector subsidies: Great Britain (including local authorities, new towns and SSHA)

	Total Exchequer and rate fund subsidy (excluding rent rebates)	Average subsidy per dwelling
	(£ million)	(£)
1973-74	920	155
1974-75	1,380	230
1975-76	1,451	235
1976-77	1,481	234
1977-78	1,476	227

(ii) Tax relief and option mortgage subsidy to owner occupiers: Great Britain

	Total	Average per owner occupied dwelling	Average per mortgaged dwelling
	(£ million)	(£)	(£)
1973-74	1,140	114	207
1974-75	1,310	127	236
1975-76	1,340	128	234
1976-77	1,430	122	241
1977-78	1,285	118	208

(b) Housing costs relative to earnings in the main sectors

(i) Local authority rents (and housing costs) relative to average earnings: Great Britain
£ at outturn prices

	Gross (unrebated) rents per dwelling ⁽¹⁾		HRA outgoings per dwelling ⁽¹⁾		Average weekly earnings ⁽²⁾	
	Index (1973-74 = 100)	Index (1973-74 = 100)	Index (1973-74 = 100)	Index (1973-74 = 100)	Index (1973-74 = 100)	Index (1973-74 = 100)
1973-74	170	100	242	100	38.1	100
1974-75	184	108	319	132	43.6	114
1975-76	209	123	374	155	55.7	146
1976-77	246	145	445	184	65.1	171
1977-78 (provisional)	284	167	468	194	71.5	188

⁽¹⁾ As defined for Cmd 6851, Technical Volume, Part 1, Table IV 12.

⁽²⁾ Manual males aged over 21 in full time employment in Great Britain in April of each financial year excluding those whose pay was affected by absence. New Earnings Survey (Department of Employment Gazette, October 1978).

(i) Owner-occupiers' mortgage outgoings relative to earnings

£ at outturn prices

	Average mortgage outgoings per mortgaged dwelling ⁽¹⁾			Average weekly earnings ⁽²⁾	
	Gross	Net ⁽³⁾	Net ⁽³⁾ Index (1973-74 = 100)		Index (1973-74 = 100)
1973-74... ..	394	294	100	41.9	100
1974-75... ..	470	335	114	47.7	114
1975-76... ..	535	368	125	60.8	145
1976-77... ..	607	404	137	71.8	171
1977-78... ..	626	428	146	78.6	188

⁽¹⁾ DOE estimates.⁽²⁾ Net of tax relief and option mortgage subsidy.⁽³⁾ Based on annual figures. Average for manual and non-manual employees. (Many owner-occupiers are manual employees—see Cmnd 6851 Technical Volume). Otherwise as in table (b) (i) above.

20. It should be noted that direct comparisons between figures for assistance to householders in each sector, whether in total or per dwelling, are misleading. The size, rate of growth, and other factors affecting cost levels are different in each sector. The conclusion of the housing Green Papers (see paragraphs 5.39-45 of Cmnd 6851 and Technical Volume, Chapter 5) was that there is no incontrovertible method of drawing up a 'balance sheet' of actual and imputed costs and benefits of householders in each sector to establish which does best in terms of subsidy.

21. As the tables above indicate, the level of general assistance increased sharply early in the 1970s as a result of unprecedented increases in interest rates and capital costs which forced up the cost of housing in both sectors relative to average incomes. Provided interest rates remain steady, the amount of general assistance required to maintain a reasonable relationship between housing payments and householders' incomes grows only slowly in real terms. With falling interest rates, the amount of assistance required declines in real terms. The effects of changes in interest rates are felt most quickly in the private sector. They affect the public sector more slowly because of the loans pooling arrangements operated by local authorities.

Subsidies

22. Compared with Cmnd 7049 the figures for subsidies have been revised in the light of the movement of interest rates. Rents are assumed to keep broadly in line with money incomes. It is also assumed that a new subsidy system for England and Wales will be introduced by 1980-81.

23. In addition to general subsidies, including rate fund contributions to housing revenue accounts, income-related support is given to public sector tenants by way of rent rebates and to private sector tenants by way of rent allowances.

Recipients of rent rebates and allowances: Great Britain

thousands

	Rent rebates	Rent allowances	Total
1973-74	2,070	340	2,410
1974-75	2,100	350	2,450
1975-76	2,250	380	2,630
1976-77	2,380	620	3,000
1977-78	2,420	610	3,030
1978-79 (provisional)	2,420	610	3,030

24. At present the figures in table 2.7 include repayments by local authorities to the Supplementary Benefits Commission in respect of rebates and allowances for tenants in England and Wales receiving supplementary benefit. Under proposed new legislation these repayments are planned to cease. The cost of this change will be borne by central government.

Assistance to mortgagors

25. The new housing legislation will enable local authorities to provide mortgages at an interest rate representative of building society rates. Differences between the building society rate and an authority's 'break-even' rate would be met by contributions from—or to—the authority's rate fund, depending on the relationship between the two rates at any given time.

26. The gross public expenditure cost of the option mortgage scheme, as shown in table 2.7, is higher than shown in Cmnd 7049 because the raising of tax thresholds and the introduction of a lower rate band for personal income tax are expected to lead more housebuyers to prefer option mortgages at the new rate of 33 per cent to an ordinary mortgage which qualifies for tax relief. (The forecasts assume legislation to permit easier switching in and out of option mortgages from 1980-81 onwards.) There will, however, be some offsetting reductions in tax relief because of this change in preference. To the extent that the increase in the gross cost of option mortgage subsidy is directly offset by a reduction in a closely related kind of assistance (*viz* tax relief) it does not, despite the nominal increase in public expenditure, have any material economic effects. For policy purposes therefore, in deciding the total of the housing programme and of public expenditure as a whole, the net and not the gross increases are taken into account. The changes in Cmnd 7049 provision are shown in the following table:

Option mortgage subsidy—changes in Cmnd 7049 provision: Great Britain

£ million

	1979-80	1980-81	1981-82	1982-83
Gross increase	+51	+140	+172	+189
Reductions in tax relief	-34	-110	-138	-152
Net increase	+17	+30	+34	+37

B

Covering CONFIDENTIAL

Qa 04111

To: MR STOWE

From SIR KENNETH BERRILL

The Prime Minister's talk with Mr Heseltine

1. I understand that the Prime Minister is seeing Mr Heseltine tomorrow to talk about the main issues in the housing area. It was suggested that the CPRS might put a note in tonight for her to read similar to the brief which we put in before she went to talk to Mr Howell at the Department of Energy.

2. I attach a paper along these lines. In the time available we have not been able to do much more than to raise, what seemed to us, some of the more important questions, but I hope the paper will be of some value.

3. I am sending a copy of this minute and the attachment to Sir John Hunt.

KB.

22 May 1979

Att

Housing

The Government's approach to housing is governed by two main considerations:-

- (1) It is a major feature of the Manifesto that wider home ownership should be encouraged;
 - (2) Public expenditure on housing has been singled out by the Government when in opposition to produce proportionately greater savings than any other programme.
2. Against this background we suggest that the following are among the questions which the Prime Minister may wish to raise in her discussion with Mr Heseltine tomorrow.

General

- (i) What is the present state of housing supply and demand? There is already a crude housing surplus despite the fact that demand is being artificially stimulated by uneconomic pricing. Some housing is undoubtedly unsatisfactory, and there may well be shortages in particular areas of need. Is policy focussed on these problems?
- (ii) Does the Department agree that it is generally more cost-effective both in the public and the private sectors to encourage renovation and improvement of existing houses than to encourage new building?
- (iii) Are there large public expenditure savings to be had from cutting back on house construction in the public sector? Will the consequences be tolerable for the construction industry? Will private house construction fill the gap?

Subsidies

- (i) A reduction in subsidies to public sector housing (currently amounting to some £1,600m) must make a major contribution to the Government's plans to reduce public expenditure. How much can be saved by increasing local authority rents in the current year?
- (ii) What contribution can be made by council house sales? Now that the Secretary of State has seen the books, does he consider that a maximum rate of discount of 50% is too high? Might this not involve unnecessarily foregoing large capital receipts?

CONFIDENTIAL

- (iii) The present system of subsidising housing is capricious and wasteful. Should the Government aim at the gradual elimination of housing subsidies with a view to releasing substantial resources for reductions in personal taxation? The balance between the public sector (subsidised rents) and the private sector (tax relief for mortgages) would need to take account of the Government's policies for encouraging more home ownership.
- (iv) What steps can realistically be taken to reduce the subsidies which private landlords provide for their tenants? A shorthold scheme by itself will not achieve this objective. Can we assume the policy of phasing out the controlled rented sector?

Home Ownership

- (i) What contribution will the sale of council houses make to the increase in home ownership over the next 5 years?
- (ii) What steps does the Department envisage to facilitate the provision of funds for housing? For example, is the retention of the Building Societies' cartel compatible with our housing objectives, and our emphasis on the need for more competition?

[NB. Building Society finance is primarily the responsibility of the Chancellor, although Mr Heseltine is concerned with the housing implications.]

Private Rented Sector

What is the Secretary of State's timetable for bringing forward legislation on shorthold? Does he have a particular scheme in mind? ~~What steps is he taking~~ to prevent landlords refusing to make any new lettings until the new scheme is introduced?

[NB. At the moment there are some 300,000 new lettings a year, including single rooms. There is a danger that landlords will not agree on new lettings until the Government's precise intentions on shorthold have been clarified.]

5. Helping the family

HOMES OF OUR OWN

To most people ownership means first and foremost a home of their own.

Many find it difficult today to raise the deposit for a mortgage. Our tax cuts will help them. We shall encourage shared purchase schemes which will enable people to buy a house or flat on mortgage, on the basis initially of a part-payment which they complete later when their incomes are high enough. We should like in time to improve on existing legislation with a realistic grants scheme to assist first-time buyers of cheaper homes. As it costs about three times as much to subsidise a new council house as it does to give tax relief to a home buyer, there could well be a substantial saving to the tax and ratepayer.

The prospect of very high mortgage interest rates deters some people from buying their homes and the reality can cause acute difficulties to those who have done so. Mortgage rates have risen steeply because of the Government's financial mismanagement. Our plans for cutting government spending and borrowing will lower them.

THE SALE OF COUNCIL HOUSES

Many families who live on council estates and in new towns would like to buy their own homes but either cannot afford to or are prevented by the local authority or the Labour government. The time has come to end these restrictions. In the first session of the next Parliament we shall therefore give council and new town tenants the legal right to buy their homes, while recognising the special circumstances of rural areas and sheltered housing for the elderly. Subject to safeguards over resale, the terms we propose would allow a discount on market values reflecting the fact that council tenants effectively have security of tenure. Our discounts will range from 33 per cent after three years, rising with length of tenancy to a maximum of 50 per cent after twenty years. We shall also ensure that 100 per cent mortgages are available for

the purchase of council and new town houses. We shall introduce a right for these tenants to obtain limited term options on their homes so that they know in advance the price at which they can buy, while they save the money to do so.

As far as possible, we will extend these rights to housing association tenants. At the very least, we shall give these associations the power to sell to their tenants.

Those council house tenants who do not wish to buy their homes will be given new rights and responsibilities under our Tenants' Charter.

REVIVING THE PRIVATE RENTED SECTOR

As well as giving new impetus to the movement towards home ownership, we must make better use of our existing stock of houses. Between 1973 and 1977 no fewer than 400,000 dwellings were withdrawn from private rental. There are now 1 undreds of thousands of empty properties in Britain which are not let because the owners are deterred by legislation. We intend to introduce a new system of shorthold tenure which will allow short fixed-term lettings of these properties free of the most discouraging conditions of the present law. This provision will not, of course, affect the position of existing tenants. There should also be more flexible arrangements covering accommodation for students. At the same time, we must try to achieve a greater take-up in rent allowances for poorer tenants.

PROTECTING THE ENVIRONMENT

The quality of our environment is a vital concern to all of us. The last Conservative government had a proud record of achievement in reducing pollution, and protecting our heritage and countryside. We shall continue to give these issues a proper priority. Subject to the availability of resources we shall pay particular attention to the improvement and restoration of derelict land, the disposal and recycling of dangerous and other wastes, and reducing pollution of our rivers and canals.

We attach particular importance to measures to reduce fuel consumption by improving insulation.

