cc Mr Mottram
Mr Ryder
Mr Turner

Prime Minister Housing 2

SECRETARY OF STATE FOR THE ENVIRONMENT

p.c.

To note. On the new discounts, I have warned DoE that you will want to have the Chief Secretary's views.

It is all right: discounts are 3/4 market value and the results look quite good.

14/5

PRIME MINISTER

The Prime Minister will remember that on 16 March Mr Shore introduced measures which restricted the right of local authorities to sell council houses. We gave an immediate commitment that we would repeal this provision. I intend to do that forthwith.

11/5

The Prime Minister will also be glad to know that under existing legislation we can proceed at once to a partial implementation of the manifesto commitment. We can authorise those authorities that wish to do so, to sell homes to existing tenants at the more generous discounts set out in our manifesto. It may prove possible to proceed with our plans for the sale of homes in the New Towns simply by instruction. I am still awaiting advice on this. We shall, of course, have to wait for legislation to give tenants the right to buy in those areas where local authorities will not agree to sell.

I plan to announce the reversal of Mr Shore's measures on Saturday to coincide with George Younger's speech. I will make another announcement very soon on the precise nature of our new discounts, and will ensure that your Office are informed beforehand.

I am copying this to Cabinet colleagues and Sir John Hunt.

MT

Mr Younger will be announcing the same reversal for Scotland. I have also warned his office not to go firm on lower discounts without first consulting the Chief Secretary.

MH

MH

11 May 1979

Prime Minister 16.5.79 2

To be announced this afternoon. Treasury (Flag A) are content subject to two points.

Prime Minister

1. When I wrote to you on 11 May about the sale of council houses I said that I would let you know the details of the discounts which I would enable local authorities to give. We cannot, of course, as yet compel local authorities to sell. That will come in our legislation giving tenants a right to buy. But for those local authorities who are willing to sell we can go a very long way to giving effect to our Manifesto commitment, particularly in relation to discounts. I propose forthwith to enable local authorities to allow discounts to tenants of 3 years standing in line with those in the Manifesto. 17/5

2. The Manifesto sets out a range of discounts for people who have been tenants for 3 years or more. We have to decide also what to do about tenants of less than 3 years' standing. On that I propose to allow discounts to be given based on the most generous discounts available by general or special consents during the period from 1970 up till March 1979 when Mr Shore revoked the consent then in force.

3. The overall effect is, therefore, to introduce discounts as set out below.

a. People who have been tenants for up to 3 years may receive 30% discount; tenants of up to 4 years may receive 33% discount with an additional 1% for every complete year of tenancy rising to a maximum of 50% for a tenant of 20 years or more; and

b. People who are not tenants but are buying a council house for their own exclusive use may receive discounts of either 20% or 30% depending upon whether they opt for a 5 year or an 8 year period (the pre-emption period) during which they will be unable to resell at a profit.

4. We were always preoccupied in devising our Manifesto scheme that people might make a killing by buying a house at a discount and selling it quickly. Our solution in the "right-to-buy" legislation will be a 5 year profit-sharing scheme whereby the local authority take the lion's share of any profit (probably 80%) if a house is sold in the first year and then declining to 20% in the 5th year. For various legal reasons, it is easier now to preserve the sort of safeguard contained in consents over the past 10 years than to go for our prospective form of safeguard. Until we have fresh legislation there will be a condition on sale that if an authority has granted a discount it shall have the right to buy the house back at sale price within a period of 5 years if the house is sold by a tenant; or 8 years if it is sold at a 30% discount by someone who has not been a tenant.

5. I shall consider whether in our forthcoming legislation we can apply our proposed profit sharing arrangements retrospectively, since I think these are likely to be more favourable to the individual than the pre-emption system. It will certainly be my intention to do so unless we hit major snags.

6. I will be open to the question why we have introduced fresh arrangements now when there is the prospect of legislation. The answer is that many authorities will have

been frustrated from selling houses to willing buyers by Mr Shore's arrangements and we ought to encourage them to go ahead now. By doing so they will be safeguarding themselves against possible future price rises. We shall, too, be giving a possible boost to increased mobility by doing so.

7. I shall announce the essential features of the scheme in tomorrow's debate.

8. I am copying this to Cabinet colleagues and to Sir John Hunt.

MH

Housing

Treasury Chambers, Parliament Street, SW1P 3AG

17 May 1979

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

Dear Michael

COUNCIL HOUSE SALES

You copied to the Chief Secretary your letter to the Prime Minister in which you stated your intention to announce this afternoon your revised Ministerial consent to local authorities to offer discounts consistent with the manifesto for sales of council houses. This may involve departure from the general principle incorporated in the Town and Country Planning Act 1959 that local authorities should secure the best price on disposal of assets and, although I am advised that you are empowered to authorise such departures, it is essential, in terms both of public expenditure and of presentation, that the financial benefits from council house sales are maximised. In this context, this would mean:

a. increasing as much as possible the proportion of private mortgage finance. Any reference to 100% mortgages should not be to local authority mortgages since that will greatly reduce the immediate and much needed public expenditure benefits. Any such reference should be consistent with the Prime Minister's careful qualification in her speech on the Debate on the Address when she stated that

> "We will give to every council tenant the right to purchase his own home at a substantial discount on the market price and with 100 per cent mortgages for those who need them."

(Hansard 15 May Col 80).

b. avoiding any public commitment to replacement building. It will make no sort of economic sense if stock sold at a discount is replaced by new building.

I am copying this letter to the recipients of yours.

NIGEL LAWSON