



10 DOWNING STREET

From the Private Secretary

5 July 1983

Dear John,

STRATEGY FOR UNEMPLOYMENT

The Prime Minister plans to hold meetings at Chequers on Tuesday 6 and Wednesday 7 September, to consider what the next steps should be in the Government's strategy for creating a more enterprising and prosperous British economy, and thus reversing the growth of unemployment.

The Prime Minister would be grateful if the Secretary of State for the Environment would provide a paper for the discussion at Chequers under the following heading:

"What changes should be made in the Government's housing policies to assist labour mobility?"

Mrs. Thatcher particularly hopes that the paper will avoid generality and will concentrate on the specific decisions which need to be taken.

I would be grateful if you would ensure that this paper is sent to the Prime Minister by Friday 26 August at the latest.

The Prime Minister has asked that this paper be produced by your Secretary of State and any of his colleagues or officials whom he decides to involve on a need-to-know basis, without any consultation outside the Department. She has also asked that the fact of the Chequers meetings be closely guarded, that this letter be seen by no-one but your Secretary of State and yourself, and that in commissioning the above paper, you do not disclose its occasion.

I enclose two notes by Alan Walters about recent academic work on unemployment, supplementary benefit and relative wages, as a background for the Chequers discussion; and a wide-ranging note which the Prime Minister believes will also form a useful background to the Chequers discussions.

Yours sincerely,

Michael Scholar

John Ballard, Esq.,
Department of the Environment.

CONFIDENTIAL

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My ref:

Your ref:

15 August 1983

Dear Michael

In John Ballard's absence I am replying to your letter to him of 5 July.

As requested in your letter, I attach a paper on housing and labour mobility. In order to meet your deadline, the substance and structure of the paper was agreed by my Secretary of State before he went on leave and the text itself has been approved by Mr Gow.

Yours sincerely

Roger Bright

ROGER BRIGHT
Private Secretary

Michael Scholar Esq

HOUSING AND LABOUR MOBILITY

1. A job and somewhere to live: the two are inseparable. We are trying to encourage greater labour mobility as industry relocates itself. But our success will be limited unless we can also encourage a sufficient supply of houses, where they are needed, at a price that can be afforded.

2. Between 1971 and 1981 there has been a small reduction in mobility, down by 1.5% from 11.2% to 9.7% of all households. (Table A in Annex A) Most of this reduction has been in the private rented sector, which in the past appears to have been particularly conducive to mobility.

3. Mobility will only be increased if we can take one or more of the following steps:

(1) Halt the decline in the private rented sector;

(2) Make it easier for public sector tenants to transfer within the public sector or buy their own homes;

(3) Make it easier (and cheaper) for owner occupiers to move.

PRIVATE RENTED SECTOR

4. The Private rented sector has declined steeply, from 3.4 million households to 1.9 million in 1981 and now accounts for less than 10% of all households. It is still declining. The 1981 Housing Act has not reversed this trend. Short-hold has been a disappointment - 5,000 in the first year, partly as a result of the Labour repeal threat, partly because it is within the fair rent system. Assured tenancies have begun to take off following the introduction of capital allowances for building costs in the 1982 Finance Act, but the scale is minute - 500 tenancies are expected by mid 1985.

More radical measures are needed for non-resident landlords if the private rented sector is to contribute to greater mobility:-

(a) general deregulation of rents and security of tenure for all tenants, ie effective repeal of the Rent Acts;
or

(b) partial deregulation eg, for new tenancies only, deregulation of rents and minor modifications of security of tenure either for all tenants or for new tenancies only, deregulation for properties above a 'fitness' standard either for all tenancies or for new tenancies only.

6. Any solution, such as (a) above, which abolished security of tenure would be highly controversial; and it is worth noting that this is now of less concern to most potential and existing landlords than the rate of return they expect to receive. Any radical measure of deregulation, even with the retention of security of tenure, would attract a Labour Party repeal threat which in turn would reduce its effectiveness in persuading landlords to join or remain in the sector. There would also be major public expenditure implications in a widespread restoration of market rents: there would be a big increase in housing benefit. Nevertheless, a Labour threat to repeal will be seen as less of a real one than at any time since 1951.

7. A more gradual and less politically sensitive approach would be to extend, in stages the assured tenancy scheme. This scheme at present applies only to new build but, with legislation, it could be extended, with safeguards as necessary for existing tenants, to newly improved and converted dwellings in the private sector or to all existing dwellings meeting basic standards of fitness. A more limited form of extension would be to vacant property, eg in rundown or difficult-to-let estates, formerly let by local authorities. This would require legislation.

8. The rent and security regime for resident landlords is already relatively free from restrictions.

PUBLIC RENTED SECTOR INCLUDING HOUSING ASSOCIATIONS

9. All the options for this sector involve encouraging/compelling local authorities or housing associations to set aside a proportion of their housing to cater for job movers. But, unless resources are increased, any major extension of this policy must be at the expense of other priority groups such as the elderly, the disabled and, to the extent that the statutory duty allows, the homeless. (The figures for 1982 show that London boroughs devote up to 70% or so of new lettings to the homeless.)

10. The steps we have already taken to increase mobility in this sector may be sufficient. Alone of all tenancies there was no reduction in the mobility of local authority/new town tenants between 1971 and 1981 (Table A of Annex A). Neither do the 1981 figures reflect the impact of a number of major steps taken since 1980:-

1) National Mobility Scheme (NMS), funded mainly by central government, to help people with a pressing need to move for job or social reasons. Authorities have to make at least 1% of these lettings each year available to newcomers, plus one letting for each of their nominees who is rehoused elsewhere. All but four local authorities participate. In 1982/83 there were 6,235 moves reported outside London, and 7,562 in London.

2) Tenants Exchange Scheme which uses a computer bureau to help public sector tenants exchange. 50,000 tenants are registered so far. A right to exchange is to be introduced in the Housing and Building Control Bill.

Table B. Employment Status of Heads of Moving Households: England, 1977

	<u>Full- Time Civil Employment</u>	<u>Armed Forces</u>	<u>Full- Time Students</u>	<u>Other (*)</u>	<u>Total</u>
<u>Moves within UK across county boundaries (**)</u>					
Owner-occupiers	156	5	3	50	214
Tenants of LA's, NT's, HA's.	24	1	2	2	47
Tenants of private landlords	83	11	16	15	125
All tenures	<u>263</u>	<u>17</u>	<u>21</u>	<u>85</u>	<u>386</u>
<u>Moves from outside UK</u>					
Owner-occupiers	13	1	-	4	18
Tenants of NT's, LA's, HA's.	3	1	1	-	5
Tenants of private landlords	24	12	17	10	63
All tenures	<u>40</u>	<u>14</u>	<u>18</u>	<u>14</u>	<u>86</u>

Note: (*) Retired, part-time employment, unemployed

(**) Included moves to England from Wales, Scotland, or Northern Ireland.

Source: National Dwelling and Housing Survey.

MOBILITY AND HOUSING TENUREA. Changes Through Time

Table A shows the estimated number of moves, irrespective of distance, classified by the tenure of the accommodation to which the move is made. Newly formed households are counted as well as continuing households moving from one house to another.

Table A. Number of Moves in Proportion to all Households in Each Tenure

	<u>Owner Occupiers</u>	<u>LA/NT Tenants</u>	<u>HA Tenants</u>	<u>Tenants of private Landlords</u>	<u>All Tenures</u>
<u>1971 (England and Wales)</u>					
Movers ('000)	801	454		600	1,855
Percent of all households	9.7	9.8		16.9	11.2
<u>1977 (England)</u>					
Movers ('000)	784	464	36	513	1,797
Percent of all households	8.6	9.3	16.0	21.2	10.7
<u>1981 (England) (*)</u>					
Movers ('000)	752	462	55	406	1,675
Percent of all households	7.7	9.1	15.3	21.0	9.7

Note: (*) Provisional figures, with approximate adjustments for change in definition of separate households

2. Table A includes all moves of house irrespective of distance. Most moves of house have nothing to do with labour mobility. The Census and survey information from which Table A was compiled do not include any information about job changes. But distance moved is relevant here, though considerable numbers of long distance moves are by people who do not thereby change employers. Moves across county boundaries or from outside the United Kingdom are taken to represent non-local moves. Such moves were about 30% of moves to owner-occupied accommodation, 10% of moves to accommodation rented from local authorities and HA's, and 37% of moves to accommodation rented from private landlords (including employers; the Ministry of Defence is classified as a private landlord). Table B shows the employment status of heads of moving households.

and other development. These aims are not incompatible with maintaining long-established policies for conserving good quality agricultural land and areas of high landscape value, provided that the planning system is used as intended, as a practical system of sound land-use management.

CONCLUSIONS

18. The private rented sector remains potentially the most accessible for those moving in search of work. Any increase in the supply of new lettings of adequate quality would require legislation. And if any move in this direction is paralleled, as it must be, by a move towards market rents the unemployed and others of limited means would need help from housing benefits.

19. An increase in mobility in the public rented sector could only be achieved by radical measures that could generate considerable opposition, particularly if public expenditure continues to be constrained. A number of steps have recently been taken to improve mobility and these may be expected to bear fruit in the near future.

20. The greatest potential in the future is to increase the mobility within the owner-occupied sector. This requires a three pronged attack - continued action to keep down or reduce the cost of entry to home ownership, the reduction of transfer costs (conveyancing, stamp duty etc) when a home is sold, and the provision of an adequate supply of building land.

as recommended by the recent Spalding Report would enable them to offer a comprehensive service to house purchasers who borrow from them, including insurance and estate agency work.

A reduction in Stamp Duty (£370m) should certainly be considered, even though it would benefit many whose moves were unrelated to jobs.

4) Subsidise builders (to sell at cost price) or give an interest rate subsidy on new houses. However, the Government is already providing strong incentives to home ownership, not least £2bn a year through mortgage interest tax relief. Further fiscal incentives run counter to our desire to reduce rates.

5) Other forms of Direct Assistance to Job Movers. The MSC have provided, on a small-scale, direct assistance to the unemployed for long distance job search and for the cost of moving. Schemes of this kind could be extended.

LAND AVAILABILITY

16. Reducing the cost of entry, or making it easier to buy will help mobility where the stock of houses or the land available for building does not exceed potential demand. They will be insufficient in themselves where, as in the South East, the supply of land is inadequate.

17. Additional land can be made available, but often at the expense of other interests. One option would be to dismantle the present planning system (which is now deeply embedded in property law and greatly valued for its protective effect on property values and local amenity). The alternative approach, which is that set out in a draft circular issued for consultation in July this year, is to retain the present system, but to improve its efficiency, changing the attitude of those who operate it to ensure that it delivers an adequate supply of land for housing

4) Do It Yourself Shared Ownership (DIYSO) Introduced in January 1983. Job movers, those on waiting lists and other first time buyers can select properties for purchase on shared ownership terms anywhere in the country, through a designated housing association or in concert with local authorities. There are cost limits on the properties, and the income levels of applicants and/or proof of inability to secure a full mortgage are factors taken into account. £45 million has been allocated to the Housing Corporation in 1983/84, to enable 3,000 dwellings to be purchased under the scheme. More resources would immediately increase take-up since the initial allocation is now over-subscribed.

5) Homeloan Scheme. Those who save for at least 2 years and then buy a house within the Government's regional cost limits, can qualify for a loan of £600, free of repayments of interest and capital for up to 5 years; and a tax free cash bonus of £110. Between December 1980 and December 1982, 10,500 people had received help under the scheme. More resources could be provided and the terms of the scheme made more attractive.

15. There are further steps that could be taken:-

1) Equity Sharing and Index-Linked Mortgages. Equity sharing and index-linked mortgages, like shared ownership, reduce the initial outgoings on a mortgage of a housebuyer, encouraging moves from low cost to high cost housing areas. Unlike shared ownership, however, they depend on the willingness of the lending institutions to commit funds in this way. The financial institutions hitherto unenthusiastic are now beginning to show some limited interest.

2) Break the existing hold of the legal profession on conveyancing (The Benson Committee's recommendations are to be circulated to colleagues shortly.)

3) Other Transaction Costs. New powers for Building Societies

OWNER OCCUPATION

13. Most people want to own their own home. 61% now do so. Recent surveys suggest that at least 77% would like to do so. If there is to be any significant increase in mobility action must be taken on the owner-occupied sector.

14. A CPRS report of November 1980 (MISC 14(80)21) suggested that the three main barriers to mobility in owner-occupied housing were relative prices, the supply of houses to buy and transaction costs. The Government has already taken a number of steps to reduce the entry costs to home ownership:-

1) Right to buy - which is being extended in the Housing and Building Control Bill. Authorities are also already able (since June 1981) to sell houses to incoming job movers at up to 30% discounts.

2) Low cost Home Ownership - building for sale; partnership schemes between local authorities, new towns and private housebuilders; improvement for sale; homesteading, the sale of unimproved dwellings by local authorities for improvement by the purchaser and guarantees for building society mortgages.

3) Shared Ownership. Local Authorities, Housing Associations and new towns have been encouraged to use their powers to allow purchasers to buy on shared ownership terms rather than outright. The Housing and Building Control Bill will give public sector tenants the right to buy on shared ownership terms. There have been 7,300 shared ownership sales since May 1979. The extension of capital allowances for building on shared ownership terms would be a considerable boost to the scheme.

And of course - who will buy in a rapidly
declining area of basic industry?

11. Further steps that could be taken are:-

(1) Extend the NMS by increasing the percentage of lettings to be reserved for the mobile. This would probably require legislation because authorities would argue that other duties and priorities absorbed all available resources.

(2) impose a general requirement upon housing authorities, as provided for in the Tenants Rights etc (Scotland) Act, to give no less favourable treatment to applicants wishing to move into their area for employment than to tenants already there seeking transfer. Again, this would increase pressures for more resources in areas of high demand.

(3) Set up an English and Welsh equivalent to the Scottish Special Housing Association, which has compulsory purchase powers. This would however be an additional public sector agency without any promise that it would be any more effective than operating through the Housing Corporation or local authority.

Housing Associations

12. Housing Associations could be urged, and priorities for grant arranged accordingly, to give overriding priority to job movers. In addition, to release more accommodation for the purpose, the nomination rights of local authorities to housing association accommodation could be reduced or abolished. This higher priority would however be at the expense of other equally deserving types of housing need. The proposals would also have implications for the cooperation between local authorities and associations and be likely to put an end altogether to the former's funding of the latter.