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PRIME MINISTER 1 March, 1985

HOME IMPROVEMENT POLICY - GRANTS, LOANS OR BOTH?

History

The Cabinet last November 8 decided that home improvement grants would be an appropriate target for reduction of public expenditure. They did so with good reason. Home improvement grants cost the taxpayer only £66m in 1977/8: last year they cost £933m, or over 14 times more. The figures for local authorities' capital spending on home improvement and thermal insulation grants in recent years have grown as follows:

YEAR:	1977/78	78/79	79/80	80/81	81/82	82/83	83/84	84/85
Cash terms:	£ 67m	£ 98m	£134m	£144m	£218m	£451m	£933m	£778m
1984/5 prices:	£124m	£174m	£206m	£190m	£258m	£495m	£980m	£778m

The original draft of the DoE's consultation paper on home improvement policy suggested that there should be better targeting of home improvement grants by the exclusion from grant of all applicants with incomes over £10,000 a year or savings of more than £4,000. However, this proposal would not have met the Cabinet's brief to deliver PSBR savings - it would merely have redistributed the present grant cake.

We therefore suggested the inclusion of loans as an option in the consultation paper and, after discussion, DoE agreed. The paper accordingly suggested that some or all grants might be replaced by either equity-sharing loans or historic-cost loans.

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Equity-sharing loans: the local authority would take an equity stake in the property equivalent to the increase in its value represented by the works carried out with the loan. The loan would be repayable either on subsequent sale of the house or earlier, at the borrower's discretion.

Historic-cost loans: the local authority would recoup the cash value of the works carried out with the loan, without interest, when the loan was repaid, either on subsequent sale or earlier.

You expressed no opinion on equity-sharing loans but felt that historic-cost loans were too much like grants to be worth the political cost of the policy change. David Barclay wrote accordingly to Patrick Jenkin's private secretary, and DoE have responded with a policy paper dismissing loans as undesirable and recommending their original suggestion of better targeting of grants. Lord Young has responded to the policy paper with a note to you expressing strong support for loans.

Next Wednesday you will be meeting DoE Ministers and other Ministers with an interest in housing policy to discuss what should be in the consultation paper.

The options

1: Do nothing: If we make no change in policy, either the present frighteningly high level of spending on grants will continue or the number of applications approved will have to be very severely rationed, accelerating the already serious decline in the state of the housing stock.

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2: Better targeting: This is the DoE's preferred option. Like option 1, it yields no savings unless grant queues are allowed to lengthen and, on its own, is not worth pursuing in our view. One might as well follow option 1 and do nothing.

3: A mixed system of grants and loans: Like Lord Young, we **recommend** this option. Grants would be paid to the poorest 60% of applicants; loans would be paid to the richest 40%. Savings would be about **£15m** in year 1, rising to **£70m** in year 5 and **£200m-300m** by year 20 (all figures at constant 1984/5 prices). These savings are obviously worthwhile, and could be redeployed partly to reduce public spending generally and partly to provide further grants to clear the present backlog of applications and thus to meet the criticism that, despite heavy increases in grant expenditure, we are not yet doing enough to care for the stock.

4: Loans for all: This is the option preferred by the Chief Secretary. It would produce the largest saving: **£40m** in year 1, **£260m** in year 10 and **£780m** in year 20. But it is, in our view, unduly harsh on the poorer people who are most in need of help. It would be politically very difficult to sell this option in the present climate of concern about the state of the housing stock.

Conclusion

We recommend that a mixed system of grants and loans be included as an option in the consultation paper. We think it would be politically saleable, administratively simple (the only extra work for councils is the means test to decide who gets loans) and, above all, financially rewarding in PSBR terms.

CHRISTOPHER MONCKTON CM