



B

Ref. A085/926

PRIME MINISTER

Review of Housing Policy

You asked for a review of housing policy by a group of senior officials under Cabinet Office chairmanship (Mr Gregson) to be completed by 31 March 1985. The report of the Group (MISC 113) is attached. It is covered by a note by the Chairman which summarises the main points and in paragraph 21 lists the issues for Ministers.

2. You had it in mind that the report would be considered by a meeting of Ministers under your chairmanship as soon as convenient after the Easter Recess.

3. I am sending copies of this minute and the attachment to the Lord President, the Secretaries of State for Scotland, Wales, the Environment and Social Services, the Chief Secretary, Treasury, the Minister without Portfolio and the Minister for Housing and Construction.

1 h.

Approved by  
ROBERT ARMSTRONG  
and typed in his absence.

28 March 1985

HOUSING POLICY

Note by the Chairman of the Official Group on Housing Policy (MISC 113)

The Official Group on Housing Policy was set up in January 1985 to undertake a review of housing policy and report to Ministers by 31 March 1985. During this period a number of major issues of housing policy have been under active consideration by Ministers, notably the future of Housing Benefit, proposals to deregulate the private rented sector and a revised scheme for Home Improvement Grants. Our task has been, in parallel with this activity, to take an overall look at housing policy, so as to provide a wider context for the current major policy discussions and to identify further policy issues requiring Ministerial consideration. Our report is attached. This note summarises the main points and, in paragraph 21, lists the issues for Ministers.

Objectives

2. Housing policy objectives must be set in the framework of the Government's overall social and economic policies. The Group identified the main social and economic considerations influencing housing policy (not necessarily in order of importance) as being -

Social

- i. that enough dwellings should be available and affordable for those who might reasonably be expected to have a separate dwelling;
- ii. that such dwellings should have certain basic amenities and be in a reasonable state of repair;
- iii. that there should be an adequate supply of accommodation of special types for those with special needs (notably the disabled and the elderly);
- iv. that the individual should have a choice as to buying or renting;
- v. that the individual should have a sense of personal responsibility for, and pride in, his home;

Economic

- i. that stable prices and lower taxes should be achieved through restraining monetary growth, reducing the PSBR as a proportion of GDP and controlling public expenditure;
- ii. that obstacles should be removed to the free functioning of markets, including the housing and labour markets, through increasing competition and reducing monopoly;
- iii. that the size of the public sector should be reduced and the ownership of capital assets widened.

Performance

3. Performance in relation to these objectives can be broadly summarised as follows -

a. There is no longer a national housing shortage. The relationship between the number of households and the number of dwellings is probably near balance overall, although there are some regional and local shortfalls (notably in London) and a shortage of accommodation at the extreme bottom end of the market.

b. Our housing conditions appear to compare well with those elsewhere in Western Europe in terms of basic amenities and over-crowding. There is however increasing concern about disrepair and structural defects.

c. The growth in the preferred form of tenure, owner occupation (now 60 per cent of all GB dwellings) has widened choice and increased the sense of personal responsibility.

d. The private rented sector is still tightly regulated and has continued to decline (9 per cent of GB dwellings).

e. The local authority rented sector (28 per cent of GB dwellings) is, though considerably smaller than in 1979, still large by international standards, has serious management problems and is not always responsive to the tenants' needs.

f. Although public expenditure on housing (GB capital and current, net of receipts from council house sales; cash) has fallen from £5.5 million in 1979-80 to a planned total of £3 billion in 1985-86, there has been an increase in Housing Benefit expenditure from £1.2 billion to £4.3 billion and in the value of mortgage interest tax relief from £1.43 billion to an expected £4.5 billion over the same period.

#### Future Strategy

4. The Group considered that the ideal strategy for improving performance in relation to the objectives in paragraph 2. above would be a market-related approach with the following elements -

i. to keep the amount of subsidy to the minimum, and to continue the trend of concentrating it on people rather than housing;

ii. to ensure that such subsidy is directed to those in greatest need;

iii. to minimise the extent to which subsidy conceals real costs and distorts choices;

iv. to promote so far as possible the free and smooth functioning of the market in houses whether for purchase or for rent;

v. to reduce so far as possible the involvement of the public sector in the actual provision of dwellings, while providing sufficient resources to cater adequately for its continuing involvement;

vi. to the extent that the public sector remains involved in the provision of housing, to promote high standards of management, cost-effectiveness and responsiveness to the needs of the consumer.

It was recognised that there were many obstacles to the full-scale application of this strategy in present circumstances. There are however opportunities to consider applying a more market-related approach, in relation to Housing Benefit, Home Improvement Grants, deregulation of the private rented sector, local authority rents and a number of issues of detail.

Owner Occupied Sector

5. The Group assume that Ministers will wish to continue the existing policies to promote home ownership, which seem likely to increase the proportion of owner occupation to around 70 per cent by the turn of the century. The main policy issues which arise are -

- i. what more can be done to encourage take-up of Right to Buy by those with sufficient income;
- ii. whether measures should be taken to extend home ownership further down the income scale of public sector tenants;
- iii. whether measures should be taken to encourage council tenants to buy in the private sector;
- iv. the future of the Homeloan Scheme;
- v. the reform of Home Improvement Grants.

6. On 5i the Group propose measures to remove some of the disincentives to the sale of flats, a further examination of the implications of reducing the price asked for flats, study of a change in the cost floor for discount entitlement, and a reduction from 5 to 3 years in the period during which repayment of discount is required.

7. On 5ii the Group consider that it would be undesirable deliberately to promote home ownership for those unable on a continuing basis to meet the costs (interest payment, repair and maintenance) without substantial public subsidy. To do so would increase subsidies and public expenditure and would not foster meaningful personal responsibility for housing provision.

8. On 5iii the Group were not in favour of a general scheme because of the likely high deadweight cost, the risk of encouraging greater demand for council houses as a stepping stone into the private sector and the distorting effect on the market for private sector purchase. Two possible limited and discretionary schemes should however be studied further: one designed to release for letting dwellings not eligible for purchase under Right to Buy such as those for the elderly, handicapped and disabled; and the other confined to particular localities where there is a shortage of public sector rented accommodation.

9. On 5iv the Group recommend that Ministers should consider whether, in view of its low take-up, the Homeloan Scheme should now be wound up.

10. On 5v Ministers have been discussing a better targeted and less costly home improvements scheme.

#### Private Rented Sector

11. Ministers have accepted in principle that all new private sector lettings in England and Wales should be deregulated, although legislation has yet to be approved, pending further examination of the public expenditure implications.

#### Local Authority Sector

12. Existing policies already have the effect of reducing the size of the local authority sector. The main policy issues are -

i. how to ensure efficient management so that the residual need for local authority housing is met at minimum cost, and with greater satisfaction for the consumer;

ii. how to facilitate privatisation of vacant and difficult to manage local authority blocks and estates;

iii. local authority rent and subsidy policies.

13. In the interests of better management we recommend -

a. that the Housing Departments and the Treasury examine the desirability of further Government promotion of tenant management co-operatives, including the possibility of financial support for training and start-up expenses:

b. that further consideration should be given to whether and how far housing management should be included in the new competitive regime for local authority services when the results of the current public consultation are available.

14. In order to facilitate privatisation, particularly of vacant and difficult to let property we recommend -

a. that the Housing Departments and the Treasury study the merits and the public expenditure implications of group purchase of estates by tenants;

b. that the Housing Departments give further consideration to the desirability of a statutory right for tenants, by a substantial majority, to require the sale of an estate to a private trust on which they would be represented;

c. that the Housing Departments and the Treasury should examine the scope for legislation to give individuals, groups and enterprises a right to demand that vacant local authority property be offered for sale on the open market.

15. The adoption of economic rents in the local authority sector would be an important step towards a more market related housing policy. It would remove subsidy from those local authority tenants who can afford to pay an economic rent. For all tenants, it would identify true housing costs more clearly. It would provide an additional incentive for better-off council tenants to become owner occupiers. There would however be a considerable increase in Housing Benefit for those tenants eligible for support. The Group recommend

that, when decisions have been taken about the reform of Housing Benefit, Ministers should consider, on the basis of the options set out in the Report of the Interdepartmental Committee on Local Authority Rent and Subsidy Policy, whether and how local authority rents should be raised to levels providing an economic rate of return.

#### Voluntary Sector

16. The Housing Association movement, which is particularly concerned with housing for those with special needs, has expanded with grant assistance from the Government and now owns 2.5 per cent of dwellings in England (1.4 per cent in Wales and 1.7 per cent in Scotland). Housing Association Grant averages about 85% of costs of new building for fair rent. It is desirable to see whether the role of the Housing Associations can be maintained at lower cost in terms of the amount of subsidy provided to them and their tenants.

17. The Group therefore recommend that -

- i. in the light of decisions on local authority rent policy the Housing Departments and the Treasury should examine rental policy in the voluntary sector;
- ii. the Housing Departments and the Treasury should continue to explore the scope for introducing more private finance into Housing Association operations.

#### Housing and Labour Mobility

18. Housing policy can make a useful, although not decisive contribution to improving labour mobility. Although the available statistical information is out of date and incomplete it is clear that -

- i. a revival of the private rented sector could help job mobility;
- ii. long distance mobility is particularly difficult to achieve in the local authority sector;



iii. since owner occupation is increasingly the dominant form of tenure, it is particularly desirable to make it simpler and less costly to buy and sell houses;

iv. higher housing costs in the South East discourage mobility into that area.

19. Many of the measures proposed in other sections of the Report will help to improve labour mobility. In addition the Group recommend that Ministers give further consideration to -

i. ways of reducing restrictions on new housing developments in areas where jobs are being created, eg by ensuring that Structure Plans, especially in the South East, take full account of market demand, employment growth and labour mobility;

ii. the recommendations of the Interdepartmental Group on Simplifying Housebuying and the 2nd Report of the Farrand Committee;

iii. so far as economic and financial circumstances allow, the structure of stamp duty on housing transactions.

#### Issues for Ministers

20. Ministers will be separately determining future policy on Housing Benefit, Home Improvement Grants and deregulation of the private rented sector.

21. The following issues for Ministers are raised in this report -

i. whether the social and economic objectives influencing housing policy listed in paragraph 2 of this note are endorsed;

ii. whether it would be desirable to move as far as possible towards a market-related approach to housing policy on the lines set out in paragraph 4 of this note;

iii. whether steps should be taken to encourage take-up of Right to Buy by those with adequate incomes on the lines proposed in paragraphs 4.5 to 4.9 of the Report (removal of disincentives to sale of flats, examination of flat prices, possible change in cost floor for discount entitlement, reduction in discount repayment period from 5 to 3 years);

iv. whether the Government should refrain from measures to promote home ownership by those requiring continuing state income support (Report paragraphs 4.10 to 4.12);

v. whether any study of incentives to actual or potential council tenants to purchase private sector dwellings should be confined to two possible limited schemes, one designed to release purpose-built dwellings for the elderly, handicapped and disabled, and the other related to particular localities where there is a shortage of public sector rented accommodation (Report paragraphs 4.13 to 4.17);

vi. whether the Homeloan Scheme should now be wound up (Report paragraphs 4.18 to 4.19);

vii. whether; in the interests of better management of local authority estates:

a. the Housing Departments and the Treasury should examine the desirability of further Government promotion of tenant management co-operatives, including the possibility of financial support for training and start-up expenses;

b. further consideration should be given to the inclusion of housing management in the new competitive regime to be applied to other local authority services when the results of the current public consultation are available.

(Report paragraphs 6.12 and 6.15);

viii. whether, in order to facilitate privatisation, particularly of vacant and difficult to let property:

a. the Housing Departments and the Treasury should study the merits and public expenditure implications of group purchase of estates by tenants;

b. the Housing Departments should give further consideration to the desirability of a statutory right for tenants, by a substantial majority, to require the sale of an estate to a private trust on which they would be represented.

c. the Housing Departments and the Treasury should examine the scope for legislation to give individuals, groups and enterprises a right to demand that vacant local authority property be offered for sale on the open market;

(Report paragraphs 6.16 to 6.20);

ix. in the light of the decisions on Housing Benefit, whether local authority rents should be raised to levels providing an economic rate of return (Report paragraphs 6.23 to 6.25);

x. in the light of decisions on local authority rents policy, whether rents in the voluntary sector should be raised to levels providing an economic rate of return (Report paragraphs 7.7 to 7.8);

xi. whether the Housing Departments and the Treasury should continue to explore the scope for introducing more private finance into Housing Association operations (Report paragraph 7.9);

xii. whether, with a view to promoting labour mobility, further consideration should be given to:

- a. reducing restrictions on new housing developments in areas where jobs are being created, eg by ensuring that Structure Plans, especially in the South East, take full account of market demand, employment growth and labour mobility;
- b. the recommendations of the Interdepartmental Group on Simplifying Housebuying and of the 2nd Report of the Farrand Committee;
- c. the structure of stamp duty on housing transactions.

(Report paragraphs 8.9 and 8.11).

P L GREGSON

27 March 1985

REPORT OF THE OFFICIAL GROUP ON HOUSING POLICY (MISC 113)

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SECTION 1: INTRODUCTION

1.1 Following the Cabinet's discussion of public expenditure on housing on 8 November 1984, the Prime Minister decided that there should be a review of housing policy by officials, who were asked to report to Ministers by 31 March 1985. The Official Group on Housing Policy (MISC 113) was accordingly set up in January 1985. The following Departments were represented under the chairmanship of the Cabinet Office -

No 10 Policy Unit  
HM Treasury  
Scottish Office  
Welsh Office  
Department of the Environment  
Department of Health and Social Security  
Enterprise Unit

1.2 The Group have taken account of studies which have recently been undertaken, and Ministerial discussions in progress, on a number of housing policy issues, notably the future of housing benefit, proposals to deregulate the private rented sector, and the revised scheme for home improvement grants. A fuller list of these related matters is in Annex A.

1.3 The structure of the Group's report is as follows. Section 2 describes the objectives of present housing policy, the instruments used to attain them, costs and performance so far. Section 3 discusses future strategy. The remainder of the report considers individual sectors of the housing market in detail. Sector 4 examines the owner occupied sector; Section 5 the private rented sector; Section 6 the local authority sector and Section 7 the voluntary sector. Section 8 considers the question of labour mobility.

SECTION 2: OBJECTIVES INSTRUMENTS AND PERFORMANCE

2.1 The 1983 Conservative Party Manifesto had the goal of making Britain "the best housed nation in Europe". It contained two main policy commitments: the further extension of home ownership; and the revival of the private rented sector. It also promised to extend the Tenants' Charter to enable tenants to carry out their own repairs, that Home Improvement Grants would continue to play an important role, consultation on proposals to extend the role of building societies and an overhaul of building society legislation.

2.2 The objectives of housing policy must be set in the framework of the Government's overall social and economic policies. The main social and economic considerations which have influenced housing policy in recent years are (not necessarily in order of importance) as follows -

Social

- i. that enough dwellings should be available and affordable for those who might reasonably be expected to have a separate dwelling;
- ii. that such dwellings should have certain basic amenities and be in a reasonable state of repair;
- iii. that there should be an adequate supply of accommodation of special types for those with special needs (notably the disabled and the elderly);
- iv. that the individual should have a choice as to buying or renting;
- v. that the individual should have a sense of personal responsibility for, and pride in, his home;

Economic

- i. that stable prices and lower taxes should be achieved through restraining monetary growth, reducing the PSBR as a proportion of GDP and controlling public expenditure;
- ii. that obstacles should be removed to the free functioning of markets, including the housing and labour markets, through increasing competition and reducing monopoly;
- iii. that the size of the public sector should be reduced and the ownership of capital assets widened.

2.3 The main policies which have been followed by the Government in pursuit of these broad objectives are set out below on a sector by sector basis. A more detailed account is given in the sections dealing with individual sectors.

2.4 In the owner occupied sector, these policies have been:

- a. widening access to home ownership;
- b. encouraging local authority, New Town, Scottish Special Housing Association and Housing Association (HA) tenants to buy their homes by Right to Buy (RTB) sales at discount;
- c. increasing the financial attractiveness of home ownership through Mortgage Interest Relief (MIR); preferential Capital Gains Tax treatment; and reductions in Stamp Duty;
- d. promoting low-cost home ownership (LCHO) schemes;
- e. making available Home Improvement Grants, both to maintain the conditions of the private sector stock generally, and to support home ownership among the less well off;



f. simplifying and cheapening house purchase;

g. by providing Supplementary Benefit to cover mortgage interest payments for the temporarily unemployed and retired;

2.5 In the Private Rented Sector consideration is currently being given to deregulation of all new lettings.

2.6 Local authorities are free to decide the distribution of their resources both between and within services. The Government can seek to influence, but not determine, actual spending patterns. This influence has been exercised in the following directions:

a. reducing the size of the sector through -

i. RTB sales to existing tenants;

ii. sales of vacant and/or rundown land and housing;

iii. limiting new build to the provision of accommodation for those with special requirements or whose needs cannot be met in the private sector;

b. reducing the public expenditure costs, by -

i. increasing rents, which are now substantially higher than in 1979, but are still well below economic levels (largely offset by increased Housing Benefit);

ii. increased sales of assets (including under a.i. and ii. above);

iii. reducing Government grants;

iv. increasing pressure on local authorities to be more efficient, eg through Rate Support Grant and capital controls;

c. encouraging local authorities, within the resources available, to concentrate resources on the repair and improvement of the existing stock;

d. promoting better management of council estates, eg through the Priority Estates Project;

e. increasing tenants' freedom of choice and assisting mobility, eg through the Tenants' Charter, National Mobility Scheme and Tenants Exchange Scheme.

2.7 In the voluntary sector, these policies have been:

a. sustaining the role of Housing Associations (HA) relative to local authorities as providers of cheap rented accommodation for those with special needs and low incomes, particularly in deprived inner city areas, by the provision of Housing Association Grant;

b. building on the innovative work of HAs in developing LCHO;

c. Right to Buy.

#### The Cost of Housing Policy

2.8 Public expenditure on housing is set out in the PESC housing programmes for England, Scotland and Wales which are summarised together at Annex B. Other public expenditure is related mainly to the rent rebates and rent allowances elements of Housing Benefit which are included in the DHSS public expenditure programme. In addition, housing policy causes other costs to public funds, for example tax expenditures and other forms of cost, including notional costs, which can broadly be regarded as subsidies to housing.

2.9 In considering the various expenditures and subsidies in relation to housing a significant distinction can be made between:

i. expenditures by local authorities, the Scottish Special Housing Association, Housing Associations and New Towns in providing housing in a way and at rents determined primarily by public sector policy and supported by subsidies from central government and rate fund contributions, and

ii. subsidies and grants etc direct to individuals to assist with their housing costs, notably through Housing Benefit for public and private renters and through mortgage interest tax relief for owner-occupiers.

2.10 Under present policies it is broadly true to say that reductions in subsidies to providers of housing (i. above) can give rise to increased demands for subsidies to individuals (ii.) although this is subject to possibilities of increased efficiency and savings.

2.11 In recent years public expenditure (net of receipts from council house sales) both capital and current has fallen in Great Britain from £5.5 billion in 1979-80 to a planned total in 1985-86 of £3 billion (all in cash terms; from £8.7 billion to £3 billion in 1985/86 prices) as set out in Annex B. During this period gross provision for housing capital expenditure by local authorities, New Towns and the Scottish Special Housing Association has fallen by 38% in real terms. Within this total the proportion spent on renovation has risen (from 31% to 55%) while that spent on new building has fallen (from 53% to 32%). This mainly reflects the effects of higher council rents and of increases in capital receipts from the sale of council houses. The subsidies to individuals have however increased markedly. Housing Benefit, including rate rebates will increase from £1.2 billion to £4.3 billion over the same period and, on unchanged policies, is planned to be £4.75 billion by 1987-88. (The respective figures in 1985/86 prices are £1.9 million, £4.3 billion and £4.4 billion.) This is partly the result of unemployment but partly also the result of increases in local authority rents referred to above and to that extent is a switch in the form of subsidy.

2.12. The value of mortgage interest tax relief in Great Britain has increased from £1.43 billion in 1979-80 to an expected £4.5 billion in 1985/86 and is projected to increase, depending on interest rate assumptions, to some £5 billion by 1987-88. (The 1985/86 prices figures are £2.3 billion; £4.5 billion and £4.7 billion) In relation to this, the numbers of mortgages from building societies and local authorities has increased from 5.9 million in 1979 to 6.5 million at the end of 1983. The economic subsidies involved are more fully discussed in Annex A to the Report of the Interdepartmental Committee on Local Authority Rent and Subsidy Policy (RASP).

2.13 In addition to the subsidised rents enjoyed by local authority tenants the effect of present housing policies on the private rented sector creates a notional subsidy from private sector landlords to their tenants. This arises from the fact that registered "fair rents" are below the more economic level that would be provided by a free market. The notional subsidy was estimated to be £275 million in 1983-84, a figure which reflects the relatively small size of the private rented sector following many years of decline, but not the full distorting effects of rent controls.

#### Performance

2.14 Performance in relation to the objectives set out in paragraph 2.2 above is discussed below under the following headings -

- a. availability of dwellings;
- b. standards of accommodation;
- c. choice, and personal responsibility;
- d. the contribution to economic objectives.

#### Availability

2.15 The 1981 Census showed there to be a crude surplus of nearly 700,000 dwellings over households. Within this overall surplus allowance needs to be made for dwellings not available for use as main residences because they are used as second homes or holiday accommodation, or are vacant while being sold or renovated. Annex C shows that there are also considerable regional variations within an overall surplus in England and Wales of about 50,000 dwellings. Some at least of this surplus (and the balance) will consist of houses in poor condition or in the wrong places.

2.16 After allowing for sharing households and concealed families not wanting separate accommodation, it is reasonable to conclude that nationally there was a broad balance between households and dwellings in 1981. This compares with a shortfall of about 300,000 in 1971 and 600,000 in 1961. Data are not available for a full regional split; but very roughly the national surplus of some 50,000 available dwellings can be taken to consist of a 50,000 deficit in London, balance in the rest of the South of England, and a surplus of 100,000 in the Midlands, North and Wales.

2.17 What has happened to the balance between dwellings and households since 1981 is not known for certain, because although the increase in the number of dwellings in England and Wales has been estimated by the Housing Departments at an average of about 153,000 a year, there are no corresponding figures for the actual increase in the number of households. The projected average annual increase between 1981 and 1991 in the number of households, however, is about 167,000. It is therefore unlikely that there has been any further improvement in the balance as estimated in 1981; if anything, it is likely to have deteriorated.

2.18 Although nationally the relationship between households and dwellings is thought to be not far from balance, there has been an increase both in the various statistics on homelessness and the public expenditure costs of dealing with it. For example the number of households accepted as homeless by local authorities in England in 1978 (the first year of the Housing (Homeless Persons) Act) was 53,000; in 1981 70,000; and in the first half of 1984 83,000 (annual rate). The statistics are difficult to interpret and cannot be used as a simple indication of the adequacy of the number of dwellings. The increase in homelessness defined in this way may be partly explained by the reduction in lettings of parts of houses by private landlords both resident and non-resident. The crude balance or near balance between households and dwellings may therefore conceal a growing shortage of accommodation at the extreme bottom end of the market.

#### Standards of Accommodation

2.19 On such comparative information as is available (see Annex D) Britain already has a claim to be "the best housed nation in Europe" in terms of basic amenities and the ratio of household size to size of dwelling.

2.20 There has been a marked improvement in basic standards. The proportion of households living in dwellings that were unfit or lacking basic amenities fell from over 50 per cent in 1951 to just 8 per cent in England, 12 per cent in Wales in 1981. The nature of the problem has changed. In the 1930s and 1950s physically sub-standard housing consisted of pre-1870 slums that were unfit (by the standards of the 1930 and 1954 legislation) from their date of construction, and pre-1914 housing that was sanitary, but with neither bathroom nor hot water system, and only an outside lavatory. The current problems are of repair and modernisation. In the public sector, estates that because of their design or condition are unsatisfactory and unpopular, even though the flats and houses there have all the basic amenities, tend to generate a spiral of social problems which impose significant costs on the social and other services.

2.21 Within the public sector there is increasing concern about the condition of the ageing pre-war and early post war stock, and the emerging problem of defective dwellings of relatively recent construction. The full cost of remedying such structural faults is not yet clear. The cost of repairing 150,000 pre-fabricated reinforced concrete houses in local authority ownership alone will be about £1.5 billion and heavy expenditure on the repair of other defective dwellings is foreseen by local authorities. The 1981 English and Welsh House Condition Surveys showed that there were serious problems of disrepair in the owner - occupied sector, although the highest proportion of unsatisfactory housing is in the private rented sector, (where landlords often have little incentive to improve conditions because of rent regulation). The 1986 survey, to be published at the end of 1987 or early in 1988, will give an updated picture.

2.22 The households most likely to live in houses in poor condition include: elderly people, both owner-occupiers and tenants of commercial landlords; and poorer people in all sectors. Poor housing is associated with a higher incidence of some illnesses, and although the relationship is complex unsatisfactory housing can be expected to contribute to pressures on social and health services.

Choice and Personal Responsibility

2.23 Attitude surveys suggest that owner-occupation is the overwhelmingly preferred tenure. In England owner-occupation has increased from 57 per cent of dwellings in March 1979 to 63 per cent by September 1984; the comparable figures are an increase from 59 per cent to 65 per cent in Wales and from 34 per cent to 39 per cent in Scotland. This suggests that individuals' choices are increasingly being met and in a way which fosters personal responsibility. Within the rented sector there has however been a marked decline in private renting (from 31 per cent of all households in 1961 to less than 10 per cent now in England and Wales and from 24 per cent to 7 per cent in Scotland).

Contribution to Economic Objectives

2.24 Although, as paragraph 2.11 above explains, net public expenditure on the housing programmes in the narrow sense has decreased substantially and is expected to decrease further, there has been a substantial increase in help to individuals with rent and rebates and in tax relief for mortgage interest. The provision of housing is very far from a freely functioning market. Although monopoly has been reduced (the proportion of local authority dwellings has fallen from 29 per cent in 1979 to 25 per cent in 1984 in England, from 29 per cent to 25 per cent in Wales and from 45 per cent to 43 per cent in Scotland) public sector involvement in the provision of housing is still substantially greater than in most other countries in Western Europe. The decline of private renting may contribute to inadequate labour mobility: this is discussed more fully in Section 8 of the Report.

Assessing Programme Performance

2.25 The elements of the housing public expenditure programme are subject to annual review under the system of Performance Review Reports (PRR) operated for all DOE programmes. The Treasury are consulted in the preparation of the PRRs.

2.26 About half of the net expenditure which falls on the housing programme is incurred by local authorities. The White Paper on Financial Management in Government Departments (Cmd 9058) recognized that in the case of such services it is the local authorities themselves who are responsible for providing them economically, efficiently and effectively. Ministers need nevertheless to monitor all public expenditure on housing, including that incurred by local authorities, in order to assess its value for money and thus take an informed view in exercising their own responsibilities, especially in allocating resources and spending voted monies. We are assured that the Housing Departments, in consultation with the Treasury, will continue to develop a framework of suitable indicators which will enable informed assessments to be made at appropriate regular intervals of the cost effectiveness of housing policy instruments in the light of changing conditions.



SECTION 3: FUTURE STRATEGY

3.1 Before examining housing policy in detail the Group considered what would in theory be the ideal strategy for the Government to follow in seeking to attain the policy objectives set out in paragraph 2.2 of the Report. The basic assumption behind this analysis is that the best use of resources in housing, as in other areas of activity, is likely to arise if the market is enabled to operate as freely as possible and if distortions are reduced to a minimum.

3.2 The Group acknowledged that for the foreseeable future, as in the past, a section of the population will be unable from their own resources to meet the economic cost of housing at the lowest standard which would be socially acceptable. An element of subsidy will therefore need to be provided for some considerable time. In line with its social and economic objectives the Government is likely however to want -

- i. to keep the amount of subsidy to the minimum, and to continue the trend of concentrating it on people rather than housing;
- ii. to ensure that such subsidy is directed to those in greatest need;
- iii. to minimise the extent to which subsidy conceals real costs and distorts choices;
- iv. to promote so far as possible the free and smooth functioning of the market in houses whether for purchase or for rent;
- v. to reduce so far as possible the involvement of the public sector in the actual provision of dwellings, while providing sufficient resources to cater adequately for its continuing involvement;
- vi. to the extent that the public sector remains involved in the provision of housing, to promote high standards of management, cost-effectiveness and responsiveness to the needs of the consumer.

3.3 This might be described as a market-related approach to housing policy. There are many obstacles to the full-scale application of such an approach in present circumstances. There are many who cannot pay the economic cost of adequate housing; the numbers on Supplementary Benefit have increased from around 2 million in 1963 to some 4 million in 1983, largely as a result of recent higher levels of unemployment. There has been a long tradition of providing subsidy related to bricks and mortar, through municipal housing, rather than to individuals. The controls placed on private renting through many decades coupled with the incentives to home ownership have caused it to decline so far that its revival and substantial expansion will be difficult to achieve. Housing Benefit, although related to people rather than housing, has grown to a scale where it is exercising a significant influence on the housing market.

3.4 There are nevertheless many areas of housing policy, most of them already under consideration by Ministers, where opportunities exist to consider applying a more market-related approach. The main issues which arise are -

in relation to Housing Benefit

- how far eligibility should extend up the income scale;
- what proportion of rent and rates should be covered by benefit;

in relation to home improvement policy

- how to target subsidy more effectively on those most in need, and whether, in whole or in part, to replace grants with loans;

in relation to the private rented sector

- proposals for deregulating new lettings;

in relation to the local authority sector

- whether and how rents should be increased to levels yielding an economic rate of return;
- proposals for improving management and increasing tenant involvement;

in relation to the voluntary sector

- proposals to reduce the amount of subsidy.

3.5 The remaining sections of the Report consider housing policy in more detail in each of these sectors, particularly the scope for a more market-related approach.

SECTION 4: THE OWNER OCCUPIED SECTOR

4.1 On the basis of present trends and policies home ownership in Great Britain should continue to rise from the present 60 per cent of households to around 70 per cent by the end of the century. This is high compared for example with France (51 per cent) and West Germany (40 per cent) but survey evidence suggests that it is less than potential demand: 78 per cent (89 per cent among those aged under 55).

4.2 The forecast of 70 per cent or so home ownership by the end of the century assumes that everyone with the financial means to become an owner occupier will have done so. It also assumes the continuation of the present private sector lending policies which largely limit mortgage loans to people in full time work with reasonably stable incomes. A higher rate of income growth than projected would enable the forecast to be exceeded. On the other hand, land scarcity and high house prices and mortgage interest payments relative to earnings would retard the growth of home ownership. There is some evidence that, particularly in the more favoured parts of the country, the price and availability of land for new private housebuilding is restricting the output of new dwellings at the lower end of the market and reducing the scope for trading up which would release lower priced accommodation. This is discussed in more detail in section 8, on labour mobility.

4.3 The promotion of home ownership helps to provide what most households want. It is assumed that the Government will wish to continue to encourage home ownership energetically on the basis of present policies - by giving effect to the concept of market demand in the planning system, by further publicity, as appropriate, for the Right to Buy, and by encouraging the reduction of the initial costs of home ownership, for example by the "low-start" mortgage and shared ownership arrangements described in Annex E. On the other hand, additional bank and building society lending to finance a long run increase in owner occupation could have adverse monetary consequences, although this would be mitigated if receipts from council house sales were used to reduce public borrowing.

4.4 The main current policy issues relating to home ownership are as follows -

- i. what more can be done to encourage take-up of Right to Buy by those with sufficient income;
- ii. whether measures should be taken to extend home ownership further down the income scale of public sector tenants;
- iii. whether measures should be taken to encourage council tenants to buy in the private sector;
- iv. the future of the Homeloan Scheme;
- v. the reform of Home Improvement Grants.

Encouraging Take-Up of Right to Buy (RTB) by those with Sufficient Incomes

4.5 Since March 1979, 748,000 public sector dwellings in Great Britain have been sold to sitting tenants - about 11 per cent of the 1979 stock. (The figures for England are 639,000 dwellings and 11 per cent of the stock; for Scotland 66,000 dwellings, or about 6% of the stock; for Wales, 44,000 dwellings or 14% of the stock.) Sales over the 4½ years since RTB was introduced will now have accounted for most of the easier sales to those in the more desirable houses and with the strongest wish to buy. However, the Department of the Environment estimate that at the end of 1984 there are still some half a million tenants in England alone with sufficient income to buy under the current RTB rules and with no strong reasons for not going ahead, such as their dislike of their present homes. Other than through well targeted promotional publicity, we have identified three areas of action to encourage these tenants to exercise RTB -

- a. removal of disincentives to the sale of flats;
- b. the cost floor for discount entitlement;
- c. the period during which repayment of discount is required.

Flats

4.6 Thirty per cent of council tenants live in flats. So far only a small number of flats have been sold under RTB (1½ per cent of those available compared with 17 per cent in the case of houses). There are a number of factors which deter tenants of flats from exercising RTB and to the extent that some of them are based on attitudes, eg towards privacy, fellow tenants and the belief that flat ownership is a second rate option, they are difficult to counter. However, there is evidence that a factor which deters some tenants from buying is the uncertain commitment represented by the variable service charge (this is exploited by some local authorities opposed to RTB) and by the liability for any structural defects notified for purchase. We recommend the adoption of the following measures which are already in mind for legislation in the coming Session:

- i. a limitation on the ability of local authorities to increase service charges;
- ii. a limitation on purchasers' liability to meet the cost of remedying structural defects in flats.

4.7. There may be other factors, for example the price at which flats are offered, where there is scope for cost-effective changes which might accelerate the rate of flat sales. We recommend that the Housing Departments and the Treasury continue to study the scope for further changes in the rules governing the sale of flats, including the implications of measures to reduce the price at which they are offered.

Cost Floor

4.8 The "cost floor" places a limit on tenants' discount entitlement under RTB by requiring that dwellings which have been constructed, acquired or substantially improved since March 1974 cannot be sold at a price net of discount which is less than the cost of construction etc, where that was more than £5,000, (although the rule was modified last summer to exclude capitalised repairs from the limitation of discount.) The effect is to exclude an unknown number of recently built and improved houses. Abolition of the rule would not necessarily extend RTB further down the income scale. We recommend that the public expenditure and Accounting Officer implications of changes to the cost floor should be examined by the Housing Departments and the Treasury.

Discount Repayment

4.9 The present discount rules require repayment of discount, subject to an annual 20 per cent reduction, during the 5 years following purchase. The main benefits of reducing the repayment period to, say, three years would be to lessen a disincentive to the exercise of RTB and effect some increase in mobility for recent purchasers wishing to move house and buy elsewhere. There could be criticism of purchasers being given a windfall gain. On the other hand, repayment of improvement grants is no longer required within 5 years. Treasury Ministers suggested this change during the passage of the Housing and Building Control Bill but it was not pursued because of handling difficulties in the House of Lords. We recommend that a reduction in the repayment period to three years should be made in any future Housing Bill.

Extending Home Ownership Further down the Income Scale

4.10 Home ownership has already penetrated quite deep into low income groups. Thirty one per cent of households in the bottom quartile of the national incomes distribution are now owner occupiers, compared with 28 per cent in 1980. The proportion of low income owner occupiers with mortgages rose from 1 in 9 to 1 in 6 over the same period. It would be possible to encourage home ownership by low income groups still further by -

- i. extending the scope of Housing Benefit to cover mortgage interest payments, and relaxing the restrictions on the amount of mortgage allowed for Supplementary Benefit assessment;
- ii. relaxing the RTB rules by -
  - a. legislation to allow rents to be converted into mortgage payments;
  - b. allowing Housing Benefit and Supplementary Benefit to count as income for mortgage entitlement.

Ministers are considering separately as part of the social security reviews the issues at i.. This report is concerned only with the issues at ii..

4.11 Under the option at ii.a., any public sector tenant who had paid rent for 30 years or more would acquire his home free of further payment. Other tenants would make mortgage repayments at the level of their present rent until they reached the 30 year point. Tenants would assume full responsibility for repairs and maintenance, and, in the case of flats, service charges. Under the option at ii.b., new regulations would be made so that Housing Benefit and Supplementary Benefit payments would no longer be disregarded for the purpose of assessing mortgage entitlement under the RTB mortgage rules.

4.12 The main problem about both proposals is that they risk drawing into home ownership householders who may not be able to meet the costs associated with it (repair and maintenance as well as mortgage interest payments) except on the basis of permanent income support from the state. This would run counter to one of the objectives of extending home ownership, that of fostering an individual's sense of personal responsibility for the house he lives in. Nor would public expenditure necessarily be reduced. The majority of the Group therefore recommend against measures to promote home ownership by those requiring continuing state income support.

#### Encouraging Public Sector Tenants to Buy in the Private Sector

4.13 Substantial numbers of council tenants do not consider buying under RTB because they dislike their present home or its surroundings or both. In 1983 some 60,000 moved away to buy houses in the private sector. Such moves release accommodation either for reletting (thus reducing the pressures for new build) or for sales to the private sector. It is estimated that there are some 350,000 tenants who would would not buy their present homes and could not afford private purchase unaided, but would consider buying privately if purchase terms equivalent to RTB were available.

4.14 The Group considered three possible schemes of assistance -

- i. a mandatory scheme limited to occupants of dwellings not eligible for RTB, such as those for the elderly, handicapped and disabled (including possibly some tenants of Government funded Housing Association dwellings);



ii. an unrestricted (but discretionary) scheme;

iii. a scheme applicable only in certain defined circumstances, eg to facilitate disposals or in areas of high pressure on accommodation.

4.15 We saw attraction, in principle, in option i. as a means of releasing dwellings in the special needs category for re-letting. In practice however take-up by these tenants would be low and this is not a measure to which high priority should be attached. We recommend that the Housing Departments, the Department of Health and Social Security and the Treasury should study the scope for a cost-effective scheme on these lines.

4.16 The Group saw serious objections to option ii.. There would be a real risk of undermining RTB sales by appearing to offer tenants a more attractive option. It would accentuate the creation of public sector ghettos, where the poorest tenants lived in the worst housing. If it were successful in significantly increasing the numbers of first time buyers on the market it would, at least in the short term, lead to an increase in house prices which might squeeze out other first time buyers. There would be a high degree of deadweight expenditure.

4.17 The Group considered that the arguments relating to option iii. were more evenly balanced. A scheme with carefully drawn criteria but operating at the discretion of public landlords might help to ease the shortage of public sector rented accommodation in particular localities. A limited scheme of this kind would be less open to the objections in paragraph 4.16. We therefore recommend that a discretionary scheme applicable only in localities meeting defined criteria should be examined further.

#### Homeloan Scheme

4.18 The Homeloan Scheme, which was launched in 1978, and gave its first assistance in 1980, offers first time buyers a loan of £600, interest free for up to 5 years, and a savings bonus of up to £110. Buyers have to register under the scheme at least two years before benefiting, and the houses they buy must be below specified regional price limits, designed to restrict the scheme to two-thirds of first time buyers.

4.19 The scheme has achieved only a 1 per cent market share among first time buyers, despite it being available to up to two-thirds. Its net cost per year is currently £2.3 million. The low take-up is thought to be partly a result of the requirement to register at least two years before buying, and partly the relatively low level of benefits. There would be presentational difficulties in withdrawing the one scheme designed to benefit first time buyers. Nevertheless, we recommend that Ministers should consider whether the Homeloan Scheme should now be wound up.

#### Home Improvement Policy

4.20 In 1981 almost 25 per cent of owner occupied houses in England and Wales were estimated to need substantial improvements or repair, with 5-6 per cent needing major repair. Thirteen per cent of inter-war private sector dwellings in Scotland are considered to need repairs costing over £5,000, and 3.5 per cent of the total stock fall below the Scottish Basic Tolerable Standard.

4.21 Home Improvement Grants were designed to deal with this problem. If the housing stock is not adequately maintained, there will in the longer run need to be greater use of national resources to restore or replace it. Since there are many householders who are genuinely unable to afford the necessary repairs, Home Improvement Grants have been made available on the grounds that it is more cost effective to provide assistance in this way than to let the stock deteriorate to the point where major public expenditure might be called for. The present scheme is however open to several objections. A third of those eligible in England could afford to pay for the work themselves, while about 150,000 owner occupiers who cannot are ineligible.

4.22 Ministers have therefore been discussing a revised scheme, which would be consistent with a more market-related approach to housing policy. Assistance would be better targetted on low income groups; it would be concentrated on minimum acceptable standards where there is clearer justification for state involvement; and the use of loans rather than grants in certain cases would lead to reduced public expenditure and greater personal responsibility.

SECTION 5: THE PRIVATE RENTED SECTOR (PRS)

Present Situation

5.1 As recently as 1961, 4.5 million households in England and Wales - 31 per cent of the total - lived in private rented accommodation. That figure is now down to around 1.7 million, less than 10 per cent, and is still falling by about 70,000 households a year. In Scotland, the PRS has shrunk to around 6-7 per cent of households, 30 per cent of which is furnished accommodation. New construction for renting has virtually ceased and many landlords, on gaining vacant possession, prefer to sell for owner-occupation, or even to leave property vacant, rather than to re-let. This is in marked contrast to the position in France and West Germany, where the PRS accounts for 29 and about 40 per cent respectively of households.

5.2 There are various reasons for this decline. Changing social attitudes, particularly the growing preference for owner occupation, have had an important impact. But there is no doubt that the Rent Acts controls have been a major factor. "Fair rents" do not provide landlords with a return comparable to that which they could obtain elsewhere; the average net return in England and Wales is below 3 per cent.

5.3 Yet demand for private rented accommodation remains unsatisfied, far exceeding the supply in some parts of the country, especially London. While the number of families looking to the PRS has declined, it remains an important source of accommodation for certain groups - the young, the single, those who cannot afford or do not want to buy, and the mobile. If the PRS's decline cannot be reversed, or at least halted, the public and voluntary sectors will be put under greater pressure.

The PRS and the Market Related Approach

5.4 It is clear that deregulation of the PRS would be an important feature of a more market-related approach. It would minimise the present bureaucratic apparatus needed to enforce the Rent Acts. It would lead to a freer market, more responsive to need and with a greater degree of choice. It would end subsidisation of private tenants by their landlords, and establish a market price for private rented accommodation. To the extent that the size of the

PRS grew as a result, labour mobility and hence employment would be facilitated. On the other hand there are likely to be public expenditure costs, at least in the short run, in so far as rising rents were to lead to greater calls on Housing Benefit. In the longer term, there is the prospect of PSBR reductions as a result of increased tax take from landlords and a reduction in the MIR which would otherwise have been given on accommodation moving out of the PRS into owner occupation.

5.5 Ministers have accepted in principle that all new lettings in England and Wales should be deregulated, although legislation has yet to be approved. If the proposals are carried through to legislation, proposals for Scotland will follow. In principle, it would be desirable also to deregulate existing lettings, since existing tenants will continue to benefit at the expense of their landlords, and there would be increasing disparities between the position of existing landlords and their tenants, and new landlords and their tenants. There might also be an effect on labour mobility, because of the cost penalty existing tenants would face in moving to deregulated accommodation. However such action would be highly controversial, difficult to justify, lead to considerable disruption and have unacceptably high public expenditure costs.

5.6 Deregulation should reduce considerably the flow of accommodation out of renting into the lower end of the owner-occupied market. A substantial amount of accommodation which is at present unoccupied or under-used could become available for letting. If the sector is to expand significantly new build or purchase from owner-occupation will be needed (developers who purchase rundown or vacant local authority housing do so for sale into owner occupation). However, the financial attractions of home ownership will limit the scope for expansion of the PRS by that route. The extent of new building for rental depends on landlords' returns and rent levels after deregulation, the tax treatment of landlords and perceptions about the stability of the new regime. The public expenditure implications depend on movements in rent levels, any changes to the level and structure of Housing Benefit; and the response of landlords and tenants to the new situation.

SECTION 6: THE LOCAL AUTHORITY SECTOR

6.1 Existing policies have the effect of reducing the size of the local authority sector. Ministers have made it clear that one of their priorities is to concentrate public resources within the housing programme on capital provision for those in greatest need; and that public authorities should only add to the existing stock where it is necessary to accommodate those whose needs cannot be met in the private sector.

6.2 The present rate of new build in England is about 35,000 dwellings a year, in Scotland 2,300 and in Wales 1,700. Depending on assumptions made about the rate of household formation (which may be influenced by the availability of accommodation), the increase in owner occupation, developments in the private rented sector, and the extent of "special needs", there may be a shortfall for the remainder of the 1980s, although thereafter demographic trends will lead to a further fall in the need for residual new build. On the Department of the Environment's assumptions their view is that the shortfall in England in the remainder of the 1980s could be as much as 25,000 a year; some others in the Group do not accept all of these assumptions. Any potential gap in Scotland and Wales would be smaller.

6.3 In view of these uncertainties Ministers collectively decided in the last public expenditure round that in current economic circumstances a substantially lower provision for public sector new build was all that could be justified.

6.4 The main policy issues considered in the remainder of this Section are -

- i. how to ensure efficient management so that the residual need for local authority housing is met at minimum cost, and with greater satisfaction for the consumer;
- ii. how to facilitate privatisation of vacant and difficult to manage local authority blocks and estates;
- iii. local authority rent and subsidy policy.

6.5 The Secretary of State for the Environment has recently announced a decision to set up an Urban Housing Renewal Unit in his Department whose task will be to carry forward energetically the initiatives relevant to i. and ii. above.

Management of the Public Sector

6.6 Much of the present stock provides reasonable satisfaction for tenants and many authorities manage efficiently, keeping void properties and rent arrears under tight rein. The ills of the remainder - costly but poor quality building; lack of responsiveness to consumer preferences; insensitive housing departments; and substantial backlogs of maintenance - are well known. They stem from post-war housing drives and the consequences of local government reorganisation but also from the absence of market disciplines such as consumer choice and competition. About 1 million dwellings fall into the category of 'difficult to manage'. Such estates are characterised by concentrations of disadvantaged households with high rates of unemployment, high incidence of unlet dwellings, rent arrears, vandalism and structural defects.

Vacancies

6.7 At April 1984 in England 2.4 per cent of the local authority stock was vacant, compared with 3.6 per cent in the voluntary sector, 4.2 per cent in the private sector and the accepted rate for management turnover of 2 per cent in the local authority sector. However, this conceals pockets of unacceptably high vacancies (9.8 per cent in Liverpool, 7.7 per cent in Tower Hamlets, 6.6 per cent in Hackney and over 5 per cent in seven other local authorities). If the 30 worst English authorities brought their level of vacancies down to the present national average some 30,000 additional dwellings would become available.

6.8 The significance of measures to reduce vacancies in local authority stock depends on the extent to which there is a correlation between high vacancies and housing shortage in particular areas. There is little information on this at a national level. However, in many of the 30 authorities with the highest

vacancies (particularly the 13 London authorities) severe housing need and unused dwellings go hand in hand. For the majority of these authorities deteriorating stock and ineffective housing management are the root cause of high vacancy levels. In these areas better management and capital expenditure, as appropriate, could make a significant contribution towards meeting housing need by reducing the number of vacancies.

#### Rent Arrears

6.9 Local authority rent arrears in England and Wales rose from £61 million in March 1979 to £189 million in March 1984 that is from 3.5 per cent to 5.4 per cent of the rent collectable, although the Housing Benefit Scheme introduced in April 1983 has slowed the rate of increase. Within the overall total, there are a number of authorities with extremely high levels of arrears; 10 of the 13 authorities with levels at or above 10 per cent are in London, and the 30 worst authorities account for 48 per cent (£90 million) of total arrears. Recent initiatives by the Housing Departments and the Audit Commission and smoother operation of the Housing Benefit Scheme should help to produce lower arrears generally, but are unlikely to deal adequately with the pockets of very high arrears. The general pressures being applied to reduce local authority inefficiency, eg through the RSG system and rate-capping, should lead to some improvement, but there is scope for additional action specifically on rent arrears in the case of the very worst authorities. The Housing Departments already have action in hand.

#### Maintenance and Structural Defects

6.10 As noted in Section 2, there is increasing concern about the condition of the ageing pre-war and early post-war stock, and the emerging problem of defects in the 1 million non-traditionally built dwellings. The full extent of these problems is not yet clear, but the cost of repairing pre-fabricated reinforced concrete (PRC) houses in local authority ownership is estimated at about £1.5 billion, and local authorities foresee the need for major expenditure in much of the rest of the public sector stock. In order to

assess the overall scale of the problem the Department of the Environment is asking all English authorities for a comprehensive account of the condition of their existing stock based on information in their possession. The results should be available by July of this year. The Building Research Establishment is studying defects in some of the major industrialised systems in order to guide local authorities on appropriate inspection techniques and remedial measures. Annex F summarizes present information relevant to the condition of the local authority stock.

#### Localised Management

6.11 The Priority Estates Project (PEP) is aimed at developing integrated estates-based management. There is evidence that such an approach leads to greater tenant satisfaction, and lower maintenance costs following an initial injection of finance to bring the housing up to an acceptable standard and to give the new management style credibility. The Housing Departments are in the process of expanding and evaluating information about the results achieved, with particular reference to cost-effectiveness.

#### Transferring Management Responsibility From Local Authorities

6.12 Transferring management responsibility to tenant management co-operatives or to private sector agencies can be beneficial in some circumstances. There are now some 20 such co-operatives in the local authority sector. The Secretary of State's approval is required for setting them up.

6.13 To be launched and conducted successfully tenant management co-operatives require a high degree of commitment and management skills which are not readily found, particularly on rundown estates. As a means of providing initial support for the development of management skills, the DOE and its PEP consultants are developing a concept of "management trusts". Under this the local authority would delegate its management functions for an estate or a group of estates to a body consisting of tenants, local community representatives, councillors and co-opted experts. This body or "trust"



would employ the staff and provide the services necessary to run the estate within the budget agreed with the council, and would be accountable both to the tenants and to the local authority.

6.14 The contracting out of particular management functions introduces variety and an element of competition. This is quite commonly done for repair and maintenance services and for caretaking. However, the contracting out of individual management services tends to cut across the PEP principle of a co-ordinated estate based management. Some local authorities have considered the scope for contracting out their housing management service on a comprehensive basis. Little or no interest has been expressed in this by the private sector and, even if the necessary expertise exists, there would be limitations imposed by the exercise of the local authorities' statutory duties eg in relation to homelessness and letting policies. A consultative document has recently been issued on contracting out local authority services. We recommend that, in the light of reactions to this further consideration be given to whether and how far housing management should be included in the new competitive regime for local authority services to be embodied in legislation in the next Parliamentary Session.

6.15 We recommend that, in addition to pursuing the idea of "management trusts", the Housing Departments and the Treasury should examine the desirability of further Government promotion of tenant management co-operatives, including the possibility of financial support for training and start-up expenses.

Transferring Both Ownership and Management Responsibility from Local Authorities

6.16 There are broadly three ways of transferring the ownership of tenanted dwellings of local authorities -

- i. through purchase by the tenants themselves who form an ownership co-operative;

ii. through purchase by a non profit making, private trust, as in the case of the Stockbridge Village Trust;

iii. by sale to a commercial developer, (the only example of this is the Strinesdale Estate in Oldham where the great majority of the 160 houses concerned were untenanted).

6.17 Direct acquisition by tenants in the form of ownership co-operatives can involve substantial public expenditure costs. For example, in the case of Glasgow's plans for creating "community co-operatives", the sale package may include significant expenditure on home improvement and repairs grants. It is therefore even more important than in the case of tenant management co-operatives that the tenants to whom ownership is transferred should possess, or have access to, the necessary management skills. The setting up of the Octavia Trust in Wales appears to be a promising development. The Trust is intended to act as a sponsoring body for the setting up of tenants' ownership co-operatives and to assist them in the purchase and running of local authority estates. It believes that, after some initial assistance, it will be possible to cover both mortgage debt and management costs.

6.18 Acquisition by a non-profit making, private trust is a further way of bringing in management skills while securing a degree of tenant participation in the management. If subsidy is to be avoided or minimised, however, the valuation must be realistic and there may also need to be a reasonable prospect of obtaining capital receipts from sales of vacant land and RTB. These conditions obtained in the case of the Stockbridge Village Trust. However, the developments there have attracted about £25 million in grants of which about £16 million (mainly Housing Association Grant) may be discounted as not essential to the financial viability of the Trust.

6.19 The Housing Management Trusts (HMTs) proposed in the Centre for Policy Studies booklet, "Trust the Tenant" are an elaboration of the Stockbridge Village concept, with the principal differences that a statutory framework is proposed and a right for tenants to have their estate sold to a HMT. We

doubt the need for a statutory framework but consider that the idea of a right for tenants to require the sale of an estate to a non-profit making trust should be further examined.

6.20 We recommend that -

- i. the Housing Departments and the Treasury study the merits and the public expenditure implications of group purchase of estates by tenants;
- ii. the Housing Departments give further consideration to the desirability of a statutory right for tenants, by a substantial majority, to require the sale of an estate to a private trust on which they would be represented.

Sales to the Private Sector of Empty Dwelling and Empty or Near-empty Blocks of Flats

6.21 Within the knowledge of DOE, about 3000 empty dwellings have so far been sold to developers for refurbishment and onward sale to private individuals. Ministers have recently approved legislative proposals to introduce a modest "disturbance" allowance to compensate tenants moved in order to vacate blocks or estates which are to be sold. As noted in Annex A, E(DL) has been pursuing various means of speeding up the disposal of unused land and vacant dwellings in public ownership.

6.22 A further spur to such sales might be given if the obstructive attitude of some local authorities could be countered. We recommend that the Housing Departments and the Treasury should examine the scope for legislation which would give individuals, groups and enterprises a right to demand that vacant local authority dwellings be offered for sale on the open market. We understand that the Secretary of State for the Environment has independently initiated a study of this kind.

Local Authority Rent and Subsidy Policy

6.23 A more market-related policy would entail further movement away from subsidies to bricks and mortar through low public sector rents towards income support for the most needy council tenants. Although local authorities have raised rents significantly in recent years, they are still well below the level which would be needed to earn an economic rate of return. The Audit Commission have estimated that, using a 4 per cent rate of return, the economic rent for a typical council dwelling would be about £25 per week. In fact the average gross council house rent outside London is less than £15 per week, and some authorities fail even to cover historic costs on their Housing Revenue Accounts.

6.24 The Report of the Interdepartmental Committee on Local Authority Rent and Subsidy Policy (RASP) estimated that increases of perhaps 25 per cent would be required to give an economic rent, rather lower than the Audit Commission's estimate. The RASP Report sets out various options for change, including requiring rents to yield a given rate of return on capital value. There are a number of practical problems which would need to be resolved, not least the need for a satisfactory basis of valuation, and the particular impact on London, before such a system could be implemented. However deregulation of private renting may make it easier to establish, by analogy, the appropriate level of rents for some types of accommodation. The adoption of economic rents in the local authority sector would be an important step towards a more market-related housing policy. It would remove subsidy from those local authority tenants who can afford to pay an economic rent. It would identify true housing costs more clearly for all tenants. It would provide an additional incentive for better off council tenants to become owner occupiers. There would however be a considerable increase in Housing Benefit (HB) for those tenants eligible for support. The additional public expenditure cost (as with private sector deregulation) would depend in part on decisions about the reform of HB, and final decisions on the RASP Report will need to await the outcome of the current review of HB.

6.25 We recommend that, when decisions have been taken about the reform of Housing Benefit, Ministers should consider, on the basis of the options set out in the RASP Report, whether and how local authority rents should be raised to levels providing an economic rate of return.

SECTION 7: THE VOLUNTARY SECTOR

7.1 The Housing Association (HA) movement has its origin in a long tradition of provision by voluntary, mainly charitable bodies, of housing and care for people whose needs are unmet, or inadequately met by other tenures. The movement's role as a significant provider of housing for "fair rents" dates from the Housing Act 1974, which introduced central Government capital and revenue grants designed to meet the difference between the cost of providing accommodation for registered fair rent and the rental income obtainable from fair rents. This has led to a dramatic growth in the size of the sector: HAs now own about 2.5 per cent of the housing stock in England, 1.7 per cent in Scotland, and 1.4 per cent in Wales. The proportion is much higher in some areas, notably the inner cities, where HAs have played an important role by concentrating on the renovation and replacement of the worst housing, and on the poorest income groups. The Housing Act 1980 further extended the role of the movement by enabling HAs to provide housing for sale under the various Low Cost Home Ownership (LCHO) initiatives with the aid of Government grants.

7.2 At end March 1984 there were 2360 registered HAs in England, 180 in Scotland. Almost three-quarters own fewer than 150 units, although the 25 largest account for as much as 40 per cent of the Housing Corporation's annual development loans. For financial purposes HAs are under close Government control and are effectively part of the public sector; on average 85 per cent of the costs of fair rent developments are met by Housing Association Grant.

7.3. The remainder of this Section describes the Government's present policy objectives towards the sector and examines the scope for meeting them at a lower cost in terms of the amount of subsidy provided to HAs and their tenants. The two main routes discussed are changes in rent policy and the introduction of more private finance.

Present Government Policy

7.4 The main features of present Government strategy are -

- i. to provide Government finance to enable HAs to sustain a significant role as providers of housing for "special needs";
- ii. to promote HAs as an alternative to local authorities as the providers of low cost rented accommodation for low income groups;
- iii. to build on the innovative work of HAs in developing LCHO.

In addition many of the Government's policies towards the local authority sector have also been applied, sometimes in a slightly modified form, to the voluntary sector. The main example is Right to Buy.

7.5 The main benefits from this strategy are -

- a. HAs make a significant contribution to the regeneration of inner cities and their management is probably more sensitive than that of local authorities. Problems of difficult to let estates, high rent arrears and vandalism are rare; this may be a function not only of the management style but their generally smaller size and higher quality stock;
- b. the distinctive contribution flowing from the voluntary nature of the movement;
- c. the closer relationship between the Government and the movement than between the Government and local authorities in terms of controls on costs, and the amounts and distribution of spending;
- d. HAs are a more innovative provider of housing than the local authorities; this is a function both of their diversity, and their willingness to act as a test bed for new ideas. (The advantage to HAs in such schemes is that many of the people who take advantage of them are existing HA tenants, thus releasing accommodation for reletting).

The Market Approach

7.6 The system of control over HA expenditure enables the Government to achieve a more direct match between public subsidy and special needs than by provision through local authorities. HAs increase the choice of housing open to those in low income groups, particularly in inner cities. They contribute to the reduction of monopoly by acting as an alternative to local authority renting. But they also have features which it is difficult to reconcile with a purely market related approach to housing. They are closely controlled by the Government. Their expansion has involved a considerable amount of public expenditure. The subsidy which they provide goes to bricks and mortar rather than to individuals. The scope for mitigating these disadvantages is examined below.

Rent and Subsidy Policy

7.7 It is likely that a proportion of HA tenants have sufficient income to enable them to pay a higher rent, and perhaps even a fully economic rent. Since only two thirds of HA tenants are in receipt of Housing Benefit this would be likely to lead to some public expenditure savings. Such a change would however be difficult to achieve. At present HA tenants pay registered fair rents. A move towards rate of return rents (on the model discussed for the local authority sector in Section 6) would presumably have to be confined to those dwellings financed by the Government through Housing Association Grant. This could lead to a confusing mixture of rent regimes for HA tenants. Moreover the HAs might regard the charging of economic rents as inconsistent with their traditional role of providing cheap housing for the disadvantaged, and so discourage the voluntary effort on which the movement depends. Economic rents, supported by increased Housing Benefit, would also reduce the control which Government can exercise over the direction of HA expenditure.

7.8 Whether or not it would be worth embarking on a reform of HA rental policy is closely bound up with the Government's decisions on deregulation of private renting and the application of rate of return rents to the local authority sector. It would be difficult to justify the application of principles



to the voluntary sector which had been rejected in the case of the private and public rented sectors. We therefore recommend that the Housing Departments and the Treasury examine rental policy in the voluntary sector in the light of the decisions on the RASP Report.

Private Finance

7.9 The Housing Corporation has established a Private Finance Working Party, including the lending institutions, to consider how to fund more HA activity from the private sector. Greater use of private finance has already been approved for shared ownership through index-linked mortgages which reduce the need for public subsidy, and the re-financing of Housing Corporation loans to individual purchasers. Private finance in substitution for public sector loans for HA rented property supported by HAG has so far been ruled out on the grounds that the the Government can borrow and lend more cheaply. Rents would have to rise steeply to cover fully the costs of private index-linked loans without subsidy. We recommend that the Housing Departments and the Treasury continue to explore the scope for introducing more private finance into HA operations.

SECTION 8: HOUSING AND MOBILITY

8.1 The need to encourage labour mobility is an important feature of the Government's efforts to improve the supply side of the economy. Housing policy can make a useful, but not decisive contribution. Fewer obstacles to mobility would mean more choice for individuals and better functioning of both the housing and labour markets; as would measures to improve the balance of housing supply and the demand for labour in particular areas.

Nature of the Problem

8.2 The most recent statistical information about housing and labour mobility is the Department of the Environment's Movers Survey of 1977. This is not only out of date but is also limited in its value since it provides information only about moves which took place or had been seriously considered. It provides no measure of the number of moves which were frustrated because rigidities in the housing market made them not worth considering. The Survey does however throw some light on the extent to which house moving and job changing are linked. In 1977 moves for job reasons in England were about one quarter of all house moves and 62 per cent of moves of over 20 miles. It also indicates the form of tenure most likely to coincide with long distance moves. Moves of 10 miles or more were most frequent in the private rented sector (40.1 per 1,000 households), considerably less frequent in the owner occupied sector (24.2) and very much less frequent in the local authority sector (8.6).

8.3 More up to date information is available about one important factor affecting mobility: the house price differential between the South of England (especially Greater London) and other areas and the much smaller regional wage differential.

Table 8.1 Regional Analysis of Housing Pressures

	<u>North</u>	<u>Midlands</u>	<u>Greater London</u>	<u>South excl. London</u>	<u>England</u>
(A) Average price of secondhand houses (1983) (£)	20,820	21,790	34,578	30,970	26,524
(Index)	79	82	130	118	100
(B) Average earnings of adult men in manual work (1983)(£)	142.3	139.0	159.0	140.6	143.5
(Index)	99	97	111	98	100

Table 8.1 shows that, ignoring the special problems of Greater London, someone moving from the North or Midlands to the South is liable to have to pay about 50 per cent more for a house, although average adult earnings in the South (excluding Greater London) are about the same as in the North and Midlands.

8.4 It would be useful to have more information about the link between housing and labour mobility and particularly on the difficulties which employers have in recruiting staff in particular localities; for example those areas where "sunrise" industries are establishing themselves. We understand that the Department of Employment is considering what further study would be valuable. Meanwhile however the following aspects of the analysis are not seriously in dispute -

- i. a revival of the private rented sector could help job mobility;
- ii. long distance mobility is particularly difficult to achieve in the local authority sector;

iii. bearing in mind that owner occupation is already the dominant tenure and is likely to become so to an even greater extent, it is particularly desirable to make it simpler and less costly to buy and sell houses;

iv. mobility from the North and Midlands to the South is discouraged by the housing costs differential.

#### What Can Be Done

8.5 Many of the measures already discussed in this report would help with these problems; deregulation of new private sector lettings; economic rents in the local authority sector (which would remove the disincentive of a subsidy related to bricks and mortar, although it would bring out even more clearly than is apparent now the level of housing costs in Greater London); and shortening of the discount repayment period under Right to Buy.

8.6 The Group considered further action under the following headings -

- i. local authority mobility schemes;
- ii. financial assistance to aid mobility in key sectors;
- iii. simplifying house buying and selling;
- iv. improving the supply of land for house building in areas of shortage.

#### Local Authority Mobility Schemes

8.7 There are already schemes in which local authorities participate voluntarily to facilitate moves by council house tenants - the National Mobility Scheme and the Tenants Exchange Scheme. These schemes facilitate self-balancing movement between authorities. The National Mobility Scheme is intended to promote moves specifically for job or social reasons. From the start of the Scheme in April 1981 to the latest returns in January 1985 it has accounted for only 17,300 moves between counties, about one third of them for job reasons. The attitude of local authorities even to these schemes

suggests that they would be unlikely to co-operate with any scheme whose purpose was essentially to benefit the national economy. This conclusion is supported by experience with the Tenants' Rights (Scotland) Act 1980, which attempted to increase mobility by controlling local authorities' rights to restrict entry onto waiting lists: incomers have continued to be discouraged by the quality of housing offered to them. We concluded that it would not be realistic either to try and persuade, or to take powers to compel, local authorities in areas of housing shortage to give preference to people moving in from other areas.

#### Financial Assistance to Aid Mobility in Key Sectors

8.8 Further investigation of labour shortages in particular areas will probably reveal that these are often related to housing problems, generally either of price or availability. The numbers of workers involved might be small - essentially younger skilled workers, or with the potential to acquire skills in the new technology area - although their importance to the economy is significant. We have therefore considered whether the Government should make available financial assistance to aid labour mobility in key sectors of the economy. Our conclusion is that this would be both cost-ineffective and inconsistent with a market related approach since it would depend on the Government's ability to second guess the market, involve significant deadweight expenditure, and lead to distortions between areas and industries. The problem is better left to market forces, with firms wishing to attract the workers involved, being prepared to pay a scarcity premium in the form of salary incentives and assistance with removal costs. It would also be helpful in this, as in other areas, for there to be changes in the method of wage determination away from national rates and towards an approach which recognised local supply and demand for labour.

#### Land for House Building

8.9 The high level of housing costs in the South East results in part from an insufficient supply of land for house building. Local authority policies are inevitably influenced partly by environmental and planning interests but also by the understandable views of people already living in the area who see dense housing development as a threat to their own convenience and the capital

appreciation of their homes. It is clearly desirable that the national economic interest in introducing greater market freedom into the supply of housing is given due weight, and the Secretary of State for the Environment has recently minuted the Prime Minister with some ideas on how this might be carried forward. Following the abolition of Development Land Tax, we recommend that Ministers give further consideration to ways of reducing restrictions on new housing developments in areas where jobs are being created, eg by ensuring that Structure Plans, especially in the South-East, take full account of market demand, employment growth and labour mobility.

#### Simplifying House Buying and Selling

8.10 Efforts are being made to simplify and reduce the costs of house buying and selling, for example the licensing of non-solicitor conveyancers. The report of the Interdepartmental Group on Simplifying Housebuying identifies a number of measures which would reduce delay and uncertainty in reaching a commitment and encourage competition and reduce costs. The implementation of many of these changes will be dependent on the response of the building societies, estate agents and solicitors. The Government's direct involvement is limited (mainly to changes in land registration), but it has an important role in promoting change and acting as a catalyst for further discussions. We recommend that Ministers give urgent consideration to the recommendations of the Interdepartmental Group on Simplifying Housebuying and of the 2nd Report of the Farrand Committee.

8.11 Owner occupiers face higher moving costs than any other sector. In the South East, the high level of house prices results in a further barrier to mobility, namely stamp duty. We recommend that, as far as economic and financial circumstances allow, further consideration be given to the structure of stamp duty on housing transactions.

ANNEX A: RELATED STUDIES AND INITIATIVES

1. Rowe Review of Housing Benefit. The review is currently being considered by the Ministerial Group set up to consider the various social security reviews (MISC 111).
2. Interdepartmental Report on Local Authority Rent and Subsidy Policy. This interdepartmental committee chaired by the Department of the Environment reported in September 1984 on the level of local authority rents, the role of central Government in influencing them, the level of subsidy and central Government financial support. It identified a number of options for change on which Ministers have yet to reach any conclusions.
3. Home Improvement Grants. The Housing Departments are finalising consultation documents on a revised scheme.
4. Private Rented Sector. The Home and Social Affairs Committee (H) approved proposals by the Secretaries of State for the Environment and Wales for the deregulation of new lettings on 27 February, but a place in the legislative programme has yet to be agreed.
5. Unused Land and Empty Dwellings in Public Sector Ownership. The Ministerial Sub-Committee on Disposal of Public Sector Assets have decided on various measures to speed up disposals which will be included in this year's PES round; consideration is also being given to the use of existing new powers of compulsion.
6. Building Societies Bill. This Bill, for the 1985/86 Session, will include powers to allow Building Societies to own land and property.
7. Liberalising Conveyancing. The Farrand Committee's second report was published on 7 March.
8. Official Review of Measures to Simplify House Purchase. A recent interdepartmental study identifying options for reform.
9. Ministerial Committee on the Future of Local Government Finance. (E(LF)).

PUBLIC EXPENDITURE ON HOUSING IN ENGLAND, SCOTLAND AND WALES

£ MILLION, CASH

	1979-80	1980-81	1981-82	1982-83	1983-84	1984-85	1985-86	1986-87	1987-88
(A) CURRENT (1) TOTAL	2268	2600	2004	1561	1376	1411	1195	1149	1096
(B) CAPITAL (1) IMPROVEMENT GRANTS	166	181	272	561	1223	1005	524	478	470
(2) NEWBUILD/RENOVATIONS									
i. Local Authority	1313	1155	873	843	857	789	708	696	701
ii. Housing Association	664	772	748	927	883	881	831	834	847
iii. SSHA	41	47	42	56	52	49	49	49	49
iv. New Towns	<u>189</u>	<u>199</u>	<u>143</u>	<u>90</u>	<u>90</u>	<u>84</u>	<u>58</u>	<u>48</u>	<u>48</u>
v. Total i-iv	2207	2173	1806	1916	1882	1803	1646	1627	1645
(3) LA RENOVATION	882	837	806	1178	1371	1247	1311	1476	1527
(4) OTHER CAPITAL EXPEND	438	317	267	387	401	497	326	328	328
(5) TOTAL GROSS CAPITAL EXPEND (SUM OF B(1)-B(4))	3693	3508	3151	4042	4877	4552	3807	3909	3970
(6) TOTAL RECEIPTS	-497	-652	-1182	-2120	-2292	-1873	-1987	-1760	-1646
(7) TOTAL NET CAPITAL (B(5)+B(6))	3196	2856	1969	1922	2585	2679	1820	2145	2324
(C) TOTAL PROGRAMME (A1+B7)	5464	5456	3973	3483	3961	4090	3015	3294	3420

NB:

B(2) includes newbuild programmes by local authorities and newbuild + rehabilitation by HAs, SSHAs and NTs.

B(3) is renovation by LAs of their own stock.

B(4) includes enveloping; environmental improvements; LCHO; slum clearance; gross lending to private persons for house purchase and renovation; homeloan (England and Wales); new town improvement (England); LA thermal insulation; LA grants to housing associations; LA, SSHA and NT land and acquisition; LA slum clearance; LA sites for travelling people; CG loans and grants to first time purchasers (Scotland).

Note that certain minor capital expenditure items are recorded differently by England, Scotland and Wales as between items B(2), B(3) and B(4) above.



**CONFIDENTIAL**Annex C: Dwellings and Households in 1981

(thousands)

	<u>All Dwellings</u>	<u>Second Homes, Holiday Accommodation</u>	<u>Vacant Under Improvement</u>	<u>Available Dwellings</u>	<u>Households Plus Concealed Families</u>	<u>Balance</u>
Greater London	2,720	21	36	2,663	2,710	-47
Rest of South-East	3,840	43	27	3,770	3,765	+5
East Anglia	748	17	7	724	711	+13
South West	1,723	48	15	1,660	1,663	-3
West Midlands	1,931	7	15	1,909	1,897	+12
East Midlands	1,474	8	15	1,451	1,430	+21
Yorkshire and Humberside	1,898	16	17	1,865	1,847	+18
North East	2,463	12	24	2,427	2,411	+16
Northern	1,207	13	12	1,182	1,171	+11
<u>England</u>	<u>18,003</u>	<u>185</u>	<u>168</u>	<u>17,650</u>	<u>17,605</u>	<u>+45</u>
<u>Wales</u>	1,083	23	10	1,050	1,045	+5
<u>Scotland</u>	1,975	22	13	1,940	1,864	+76

Source: 1981 Census

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## ANNEX D: COMPARISON WITH OTHER COUNTRIES

### Standards

1. Comparisons with other countries are relevant not only to the question of what is potentially at issue in making Britain 'the best housed nation in Europe', but also to what has been achieved by public expenditure and fiscal support for housing. Publicly - financed house building in Britain was sustained on a scale and for a length of time that together were without equal in the western countries, except possibly for the Netherlands. Owner occupiers' tax relief is also probably greater in amount than in other countries owing to both mortgage interest rates and tax rates being higher than in countries where the proportion of the housing stock that is mortgaged is similar to the UK.
2. The most straightforward comparison is of proportions of dwellings (or of households) without fixed bath, hot water system, or inside WC, as there is little scope for differences of definition to impair the comparison. Average numbers of persons per room are less readily comparable owing to differences of practice about when a kitchen is counted as a 'room'. Table A summarises the available information.
3. In terms of the easily measurable aspects of housing, conditions in Britain compare reasonably well with conditions in Western Europe. This is particularly so if levels of output and income are brought into the comparison. In relation to its level of income, the United Kingdom appears better housed than in most other Western countries. However the aspects of housing conditions that can be included in measures such as those in Table A are far from a comprehensive comparison of standards and housing. Repair is not included; nor is anything about the environment. The criticisms of some of high-rise and high density council estates built in Britain in the 1950s, the 1960s and the early 1970s are paralleled by criticisms of 'concrete castles' and 'rent barracks' in Germany; and difficult to manage estates which the police are said to visit only in strength are the subject of comment in France. In Germany there are problem estates increasingly occupied by tenants who are one or more of the 'five As' (in translation the poor, the old, the unemployed, foreigners and alcoholics).
4. More specific, but not possible to compare without a more detailed investigation, are any differences in the proportion of households that share, opportunities for single adults to live on their own if they wish, and for recently married couples to have a house to themselves. It is clear, for example, that the increase in the proportion of single people living on their own has risen rapidly in other Western countries as well as in Britain, but exactly how the rates of increase compare is not known.

Table A. Comparative Measures of Housing Conditions in Western European Countries and USA

.....Dwellings.....

	<u>No Bath/ Shower</u>	<u>No Inside WC</u>	<u>Neither Bath/Shower Nor Inside WC</u>	<u>Persons Per Room</u>
Austria (1981)	22.8	14.1	....	....
Belgium (1981)	23.9	18.7	....	0.56
France (1982)	15.3	15.0	20.3	0.74 (a)
Germany (1982)	....	....	9.9	0.58
Netherlands (1981)	4.1	....	....	....
Norway (1980)	11.5	12.5	15.4 (b)	0.75 (b)
Sweden (1980)	7	4	....	0.58
Switzerland (1980)	....	....	....	0.70
USA (1980)	....	....	2.7	0.49
-----				
England (c) (1981)	1.8	3.1	5.0 (d)	0.54

Notes: (a) On the British definition the figure would be 0.65; and on the German/US definition 0.61.

(b) On the German/US definition, approx 0.6.

(c) Amenities from EHCS, persons per room from Census.

(d) Lacking one or more of the basic amenities.

## ANNEX E: LOW COST FINANCING ARRANGEMENTS

### Mortgages on "Low-Start" Terms

1. A low-start mortgage need not involve a subsidy; the low-start is achieved by a change in the basis on which payments are due under the mortgage. The rearrangement can take any of a number of forms: one which has attracted particular attention is "index-linking" under which the payment, or the outstanding debt, is increased periodically in line with (typically) the Retail Price Index.
2. The lack of much development of low-start mortgages is mainly due to the fact that lenders are constrained by the need to match the terms on which they borrow and lend. It would be impractical, for example, to lend on index-linked terms without raising the necessary finance on similar terms. Lenders can only afford to enter this market on any scale if they were sure that they could raise money on similar terms on a similar scale.
3. Under an "equity" mortgage the lender receives a share in the growth in the value of the mortgaged asset, and in return would normally charge a low mortgage interest rate (thus allowing easier mortgage repayments). Such loans have been hampered by the difficulty of raising sufficient sums from pension funds, but there are signs that this is changing.
4. So far as index-linked loans for council house sales are concerned, the main reason for not encouraging local authorities to provide such loans (although they have the powers to do so) is that much of the capital receipts from council house sales would then not accrue to local authorities at the time of sale but would be sums outstanding to them on index-linked mortgages.

### Shared Ownership

5. Shared ownership enables a marginal buyer to buy a share in his home (with the assistance of a mortgage loan) while renting the remainder. He can buy out portions of the rented share when he wishes, paying the appropriate share of the then market price.
6. Outgoings of a shared ownership purchaser resemble those on a low-start mortgage, since the payment is, essentially, a mixture of mortgage payments and (a lower amount) of rent. There is no doubt that a substantial market exists for shared ownership purchases. For a few months in 1983 HAs were able to offer "do-it-yourself shared ownership", under which individual buyers could choose their preferred home and have an HA buy it for resale to the individual on shared ownership terms. The 3000 or so sales budgeted for were rapidly over-subscribed. However, shared ownership is only attractive if the element for rent is sufficiently far below the amount which would have been payable on mortgage for the remainder of the property. At present, it is only possible to achieve a sufficient differential where the rented portion is both publicly owned and subsidised. Without a subsidy, commercial landlords cannot make a profit from it.
7. New legislation for building societies envisages them becoming involved in shared ownership. It remains to be seen whether they can keep rents sufficiently low, even on a no-profit basis, to make shared ownership significantly cheaper than outright purchase, or whether they wish to promote shared ownership rather than low-start mortgages. Shared ownership would find great difficulty in competing with the latter, which can offer similarly low outgoings, while giving the buyer all the increase in the value of the property.

ANNEX F: THE CONDITION OF THE PUBLIC SECTOR STOCK

The attached notes summarise the age profile and physical condition of public sector housing in:

- a. England;
- b. Scotland;
- c. Wales.

a. LOCAL AUTHORITY STOCK CONDITION (ENGLAND)

1. Numbers (Local authorities and new towns) (approximate numbers by type)

	England	
	Houses m	Flats m
Pre-1945 traditional	0.9	0.2
Post-1945 traditional	1.4	1.2
Pre-1960 non-traditional	0.5	-
Post-1960 non-traditional	0.1	0.4
	—	—
	2.9	1.8
	4.7	

2. Pre-1945 traditional dwellings (0.9m) require replacement of worn-out major components (roofs, guttering, wiring), repairs, and revised facilities (eg., inside WCs; removal of baths from sculleries) to maintain lettability and saleability. A little more than half the dwellings in England are thought to have had some expenditure in recent years.

3. Post-war traditional houses (1.4m): Pre 1965 (ie., pre-Parker Morris) require some replacement of worn-out components (eg., wiring, outlets). Rotted window and door frames can be a problem throughout post-war houses, including those built after 1965.

4. Pre-war traditionally built balcony access and "walk-up" flats, (0.2m): These require modernisation and replacement of components on the same lines as pre-war traditionally built houses. The extent of effective refurbishment done so far is not known. This type of dwelling is generally unpopular with tenants.

5. Post-war traditionally built flats (concrete frame towers and balcony access) (1.2m): These suffer extensively from defective concrete components (balconies, lintels), spalling concrete frames and cladding, condensation, leaking flat roofs and damp penetration generally. They are unpopular with tenants. The extent of effective repair done so far is not known.

6. Pre 1960 non-traditional houses (0.5m)

Prefabricated reinforced concrete houses: 125,000 in England requiring repair over 10-30 years.

BISF and other steel framed houses: 41,000 in England, requiring normally replacement roofs, cladding and windows; and improvement of insulation and fire protection.

Mass-concrete (Wimpey No-fines, Easiform) 125,000 in England: Condensation and heating problems.

Additionally, some modernisation as in 2 & 3 above may be needed.

7. Post 1960 system built flats and houses (0.5m):

Complex problems affecting structural integrity (40,000 Bison and Taylor Woodrow Anglian dwellings, plus a further 100,000 in large panel systems). The extent

of structural problems in the remaining 360,000 dwellings is not known but there are likely to be extensive defects in cladding, roofs and joints (leading commonly to severe rain penetration). There are also extensive heating and condensation problems. Replacement of lifts is frequently due.

b. PUBLIC AUTHORITY STOCK CONDITION (SCOTLAND)

(Comprising Local Authorities, New Towns and Scottish Special Housing Association).

1. A distinctive feature is that 52 per cent of the housing stock in Scotland falls within the public sector, compared to 26 per cent in England and Wales. The public authority rented stock of 1,057,000 in December 1983 (including New Towns and SSHA) compared with approximately 6 million for England and Wales.

Numbers: (split into houses and flats not available)

	(thousands)
Pre-1945 traditional	261
Post-1944 traditional	694
Pre-1960 non-traditional	63
Post-1959 non-traditional	39
	<hr/>
	1,057
	<hr/>

2. Pre-1945 traditional: a considerable number have been modernised and repaired over the past twenty years, but up to one-half may currently need significant expenditure.

3. Post-1944 traditional: although some have been repaired or modernised a growing number now need expenditure to remedy deficiencies (eg. window replacement, thermal insulation, installation or replacement of heating systems, modernisation of kitchens and bathrooms).

4. Various forms of large post-war housing estates of traditional as well as non-traditional construction are run-down and difficult to let. Unpopular balcony-access blocks are typical of some of these estates. Extensive work, including a degree of demolition, is required.

5. Pre-1960 non-traditional:

PRC dwellings: 15,000 owned by public authorities. Repair over 10-30 years.  
(Demolition and replacement may be appropriate for some).

BISF and other steel framed dwellings: 25,000 owned by public authorities. A significant number have been repaired and modernised, but many remain to be done. Some may be demolished rather than repaired.

Mass-concrete: These have been included in the "traditional stock" figures because their modernisation needs are broadly similar. There are approximately 136,000 no-fines concrete dwellings in Scotland and a proportion of these await modernisation.



6. Post-1959 non-traditional: these are mainly system-built, including 22,000 dwellings of large panel concrete construction (eg. Bisons) which have particular structural defects. But many other multi-storey framed blocks also have problems of water penetration, condensation, and cladding defects. Priority work is being done but much remains to do.

c. LOCAL AUTHORITY STOCK CONDITION (WALES)

1. Numbers

	Wales (1984)	
	Houses 000s	Flats 000s
Pre-1945 Traditional	39	2
Post-1945 Traditional	128	37
Pre-1960 non-traditional	- (65)	-
Post-1960 non-traditional	-	-
	<hr/>	
	Total = 271	
	<hr/>	

2. For Pre-1945 traditional dwellings (39,000); Post-war traditional houses (128,000); Pre-war traditionally built flats (2,000); Post-war traditionally built flats (concrete frame towers and balcony access (37,000) - similar considerations apply as in England.

3. For Pre-1960 non-traditional houses the numbers in the main categories are:

Pre-fabricated reinforced concrete (PRC) houses	- 15,000
BISF and other steel framed houses	- 6,500
Mass concrete	- 11,500

4. Post-1960 system built flats and houses and concrete-frame blocks: There are 1,000 Bison and Taylor Woodrow Anglian dwellings. The number of large panel system dwellings is insignificant in Wales.