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Rw 42

FILE DJC: MR MONCKTON

10 DOWNING STREET

From the Private Secretary 7 May 1985

PRIVATE RENTED SECTOR

The Prime Minister has seen your Secretary of State's minute of 3 May. She has noted the estimates of the effects of de-regulation of the private rented sector on the PSBR. In the light of these, she is content that the Bill should be considered by QL for a place in the 1985-86 legislative programme.

I am sending a copy of this letter to the Private Secretaries to members of Cabinet and Richard Hatfield (Cabinet Office).

(Andrew Turnbull)

J Ballard Esq
Department of the Environment

ECL

10 DOWNING STREET

From the Private Secretary

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Prime Minister

Other Ministers have agreed on the likely
costs, and in the longer term savings from
deregulation; and have agreed how such
public expenditure can be accommodated.

Agree this may go forward to QL
to bid for a place in 1985-86 session?

Mr Jenkin will probably be offered a choice
by QL, this Bill or his Bill on local
authority capital controls, contracting out
of services, and planning. I would prefer
this Bill. It is more important, even
revolutionary; and it can only be
done in 1985-86. ~~[illegible]~~ Delaying the
other Bill is disappointing but no more.

AT

3/5.

Agreed MT

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PRIME MINISTER

PRIVATE RENTED SECTOR

At its meeting on 28 February, Cabinet deferred a decision to include the proposed Housing Bill in the programme for the 1985/6 session, pending further consideration of the public expenditure consequences of my proposals for deregulating new private sector lettings. I was asked to examine, in consultation with Nicholas Edwards, Norman Fowler and Peter Rees, whether deregulation could be achieved without incurring any additional public expenditure costs.

We have thought it right to look at this issue within the rather broader context of MISC 111's examination of the reform of the social security system since deregulation would lead to an increase in public expenditure to the extent that rent rises following the removal of rent control were supported by housing benefit.

MISC 111 has now recommended to Cabinet 4 specific proposals to improve control of housing benefit expenditure:-

i. local authorities to bear 20% of the cost of housing benefit payments, giving them a greater incentive to keep costs down;

ii. local authority powers to withhold benefit in respect of unreasonable rents or increases in rent to be strengthened;

iii. closer scrutiny of subsidy claims;

iv. a reserve power to impose a rent cap on any individual local authority which was judged to be behaving unreasonably.

Although we have not yet finished discussing the social security review in Cabinet, I think it is reasonable to assure that colleagues will endorse these particular proposals.

I believe that these measures will minimise the risk that private landlords will be able to use deregulation to exploit the housing benefit system. They enable us to rebut any suggestion that landlords

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can simply play the system in order to line their own pockets.

These measures, by encouraging local authorities to look critically at benefit claims, should reduce the public expenditure cost of deregulations, though by how much it is difficult to say. A reduction of 10% in the estimates considered by H Committee might be reasonable and on this basis deregulation would result in an increase of about £26M in housing benefit expenditure (England and Wales) in the first full year rising to £55M in year 5. This is the public expenditure cost. The additional cost to the Exchequer would of course be lower as a result of the decision that local authorities should fund 20% of benefit payments.

It would only be possible to reduce our estimates further by imposing rent maxima for the payment of housing benefit on deregulated lettings and fixing it at some point below our estimate of the probable level of market rents, or by excluding the tenants of deregulated lettings from entitlement to housing benefit.

Norman Fowler and I have considered both these options carefully. We are convinced that neither is desirable. There was no support in MISC 111 for the general imposition of rent maxima for payment of housing benefit because of the practical disadvantages, the danger of causing hardship, and the risk that maxima would tend to become the norm. These arguments apply with equal force to deregulated private sector lettings. More generally, we do not believe that it would be right, in relation to entitlement to housing benefit, for one class of tenant to be treated differently from others. If the objectives of deregulation are to stimulate the private rented sector to meet both the short term needs of the mobile and the longer term needs of those who would otherwise look to the public sector for rented accommodation, the achievement of the second objective in particular would be frustrated to a greater or lesser extent by removing or limiting entitlement to benefit. Moreover it would almost certainly cause hardship amongst tenants. While we must, of course, prevent abuse of the housing benefit system, it would be counter-productive if limitations on the payment of benefit to private tenants deterred those tenants, or their landlords, from taking advantage of the new freedoms which deregulation will offer. On those terms deregulation would look politically very unattractive.

Deregulation would also have secondary effects on the social security budget, as higher rents would lead to an increase in the RPI, and thus to benefits linked to the index. We have estimated the cost, very crudely, at £9M in the first year rising to £13M in year 5. These costs are unavoidable.

It is worth emphasising that the PSBR costs of deregulation are significantly lower than the public expenditure costs because of the additional tax income from higher rents and a reduction in tax relief on mortgage interest for those who rent rather than buy. And if deregulation stimulated only a modest increase in the supply of rented dwellings we could in the medium term expect to see substantial PSBR savings.

I conclude that if we want to achieve the benefits which deregulation will bring - for our housing policy and for labour mobility and therefore employment - we have to accept a relatively small increase in public expenditure. Peter Rees has made it clear that this cost will have to be found within the existing overall planning total. As I reported when we last discussed at Cabinet, Nicholas Edwards and I have agreed, with Peter Rees, on the contribution towards that cost that we are to make from our existing programmes.

In these circumstances, and with the full support of Nicholas Edwards, Norman Fowler, Peter Rees and David Young, I hope that you and other colleagues can now agree to the proposals to deregulate the private rented sector which were approved by H Committee on 27 February. The next step would then be for QL to consider whether a place can be

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found for a Housing Bill in the 1985/6 session to give effect to this and my other proposals for housing legislation.

I am copying this minute to other members of the Cabinet, Sir Robert Armstrong and John Redwood.

fr P J

3 May 1985

Approved by the Secretary of State and signed in his absence.