

TOP OF BOX.

LEASEHOLD REFORM.7.300
4.200A. BACKGROUND

1. During the 1966 General Election the Labour Party promised a right of enfranchisement to long leaseholders of properties within certain rateable value limits at site value prices. We responded during that campaign by accepting the principle of enfranchisement but differing from the Labour approach in two respects. We stated that (a) enfranchisement should be universally available and not limited by rateable value, and (b) the price should be fairer as between leaseholder and freeholder.
2. Whilst the Bill was in Committee I moved (as a back bench exercise) amendments giving effect to our election stance. We carried the day on (a) but were defeated on (b).
3. There was an immediate strong reaction by the Church, Oxbridge, the Grosvenor and Cadogan Estates who saw themselves receiving the worst of both worlds. Harold Wilson had high-powered deputations to No. 10 and consequently on Report Stage whipped the Labour Party to reverse (a).
4. After some months' operation of the Act, the Government found their price formula was wrong and in the Housing Act 1969 introduced an amendment to give the leaseholders the benefit of the "marriage value" on the merger of the freehold and leasehold interests. We did no more than raise token objections.
5. During our 1970-4 Administration our Ministers at the Department of the Environment made a conscious decision to do nothing further about leasehold reform and our 1966 pledges were quietly forgotten.
6. During the passage of the Housing Act 1974, the Labour Government sought to update the rateable value limits consequential upon the 1973 revaluation. We seized the chance of extending leasehold reform by amending their upper limit in London from £1000 to £1500 and outside London from £750 to £1000. At the same time we introduced a new price formula for the additional tranche of properties (see S.118).
7. Our amendments were defeated in the Commons but reintroduced in the Lords and subsequently accepted by H.M.G. as a package in their anxiety to clear the decks in July 1974. In the rush, some of the wording went wrong between the two Houses and we have a situation similar to the one we cured in the Rent (Agriculture) Act 1976.
8. The Lands Tribunal have adjudicated on S.118 and have found for freeholders far beyond our original intention.
9. There has been constant pressure from Leasehold Tenants Associations and we have promised to look at S.118 again when we are in office but without prejudice to our view that the Labour price formula is confiscatory.
10. Just before Christmas there was tested in the House of Lords an ingenious legal device whereby the value of a freehold reversion is inflated considerably. As the result of the creation of an intermediate lease, the freehold value can be increased from £300 under the 1967 Act formula to £4000. The Court upheld the device and this has destroyed the Labour basis for enfranchisement.

B. PRESENT PROPOSITIONS

11. Freeson made the following proposals to me:-

(i) To introduce a short Bill overturning the recent House of Lords decision.

(ii) To introduce in the Housing Bill (which is still awaited) a Clause extending the 1967 price formula to the additional tranche of properties our amendments brought into enfranchisement in 1974. This would mean one price formula instead of two price formulas dependent upon rateable value as at present.

12. He asks for our co-operation to allow (i) through on the nod.

C. POLITICAL IMPLICATIONS

13. The Freeholders are anxious that we resist both (i) and (ii). Eton College has recently circulated a letter to this effect amongst colleagues.

14. The Leaseholders have been pressing me for many months to agree to extend leasehold reform to all properties and to nullify the effects of the Lands Tribunal decision on S. 118. A fortiori they will wish us to support H.M.G. in reversing the recent House of Lords case.

Brandon Rhys-Williams
15. We are particularly vulnerable in our Central London seats where the extension of leasehold reform to the higher rateable value properties is very much a live issue. The position has been exacerbated in the last year or so by the inflow of Arab and Iranian capital leading to asset stripping, sharply rising prices and great pressures to "winkle out" middle-class flat owners. Sir Brandon Rhys-Williams' Co-Ownership Bill and the recent paper by five of our Inner London Members are symptomatic of the constituency pressures.

16. Our Party has been divided on Leasehold Reform as those not subject to constituency pressures respond to overtures from Colleges and the large Estates, basing their objections upon sanctity of the contract, the need to preserve Estates such as Belgravia in one ownership for conservation reasons, and the confiscatory nature of the Labour Party legislation.

Over/....

D. POLICY DECISIONS REQUIRED

17. Do we give Freeson his short Bill on the nod in order to defeat the legal device which has inflated freehold values?
18. Do we oppose his attempts in the Housing Bill to amend S. 118 Housing Act 1974 which will extend the Labour price formula to all properties at present enfranchisable?
19. Do we restate our 1966 policy on Leasehold Reform on the basis that:-
- (a) it is illogical to have an artificial dividing line between those properties which may or may not be enfranchised
 - (b) the price must be made fairer as between landlord and tenant in all cases along the lines of our original intentions under S. 118
 - (c) the environmental quality of the large Estates must be preserved by restrictive and positive covenants enforceable by the Freeholder in the first instance and then by the Local Authorities when the Freeholder's pecuniary interest becomes so diminished as to make enforcement by them pointless?
20. Do we say to Freeson that piecemeal legislation in what will be a total of five Acts is undesirable from the point of view of professional advisors who have to discover and leaf through Statutes dealing mainly with other matters?

13th February 1979.

HUGH ROSSI

P.S. Not yet discussed
with Richard Haxell.

13/2/79