

## HOUSING PUBLIC EXPENDITURE (IN ENGLAND), 1980/81

This note gives defensive material for use against the main criticisms which are likely to be made of the announcement made by the Secretary of State for the Environment on 21 February.

General

The levels of expenditure for 1980/81 reflect the overall economic background and the need to reduce the massive burden of public expenditure. However Housing policies and expenditure levels need, too, to recognise the significant general improvement of housing conditions in the last 30 years both in terms of the condition of the housing stock and of the fact that nationally the demand and supply of housing are now in much better balance. Home ownership has grown over the period from 31 to 55%.

In these circumstances, the emphasis of public sector housing policy must now be to meet particular needs such as those of the elderly and the handicapped; and we must concentrate on making better use of the existing housing stock. Local authorities need to make full use of the various ways in which they can encourage low-cost home-ownership. Measures in the Housing Bill will help here, in particular in fulfilling our promises to give public sector tenants the right to buy their homes. Provisions in the Bill will encourage the private rented sector.

CAPITAL EXPENDITURE

The Housing Investment Programmes (HIP) allocations for local authorities for 1980/81 amount to £2,199m at expected outturn prices; the Housing Corporation will be allocated £420m for the work of Housing Associations; and the New Towns building for rent programme will be £157m.

Opposition criticism is at present concentrating on the extent of the reductions and whether the comparison with forecast outturn for 1979/80 (the figures so far given by DOE) is misleading. The main defensive points are that

- in presenting public expenditure plans it is usual to compare allocations with outturn in earlier years, as was done in the last Government's Public Expenditure White Paper published

in January 1979; the level of spending actually being achieved is obviously the proper basis of comparison with future provisions.

- the housing expenditure plans of the last Government were unrealistically high, the Budget cuts of the present Government removed £300m for 1979/80 and yet the lower cash limit will not be reached even though inflation of building costs has run faster than was expected last summer.

The percentage reductions in real terms of the three programmes both against the last Government's provisional allocations and against forecast outturn for 1979/80 are in Table 1.

#### Further defensive points

- (a) Net capital expenditure on housing fell under the last Government by over a half from £4202m in 1974/5 to £2077m in 1979/80.
- (b) The present reductions therefore reflect the trend under the previous Government.
- (c) A major factor in the reduction has been the fall in new housebuilding since 1975, particularly by local authorities (see table 2). This is the product of local authorities' own decisions. It reflects a shift in emphasis towards improvement; the high cost for local authorities of servicing earlier high levels of capital expenditure on housing; and changing perceptions of local housing needs with increasing emphasis on mortgage lending.

#### CURRENT EXPENDITURE

In his statement on 21 February, the Secretary of State announced a supplementary rent increase guideline of 60p a week on average to apply to the second half of 1980/81. This is additional to the rent increase guideline for 1980/81, announced on 16 November, of £1.50p per week on average.

#### The main lines of attack from the Opposition are:-

- a. the two guidelines are an increase of £2.10p a week;

b. this comes to £1.80p a week increase over the whole year and is a 28% increase over the average local authority rent of some £6.50 a week.

The main defensive points are:-

a. While capital spending on housing fell under the last Government, housing subsidies rose sharply (from £628m in 1973/74 to £1,386m in 1978/79 at 1979 Survey prices).

b. Over the whole year 1980/81, the guideline amounts in fact to an increase of £1.80p a week on average, not £2.10p because the additional 60p only applies in the second half of the year.

c. It is essential to look not at one year in isolation but at a run of years. The last Government said in the Housing Green Paper that it intended to keep the rise in rents broadly in line with the rise in earnings. This it failed to do. The present increases in the guideline should recover some lost ground. (see Table 3).

d. The poorer tenants will be sheltered from the increases; recipients of supplementary benefit will not have to pay any increase; recipients of rent rebates will typically receive in rebate £1.08 of a £1.80 increase.

e. Low rents have made it difficult for authorities both to sustain capital expenditure (because the rates have to meet part of the shortfall against costs) and to maintain their existing stock properly.

**POSITIVE POINTS**

Increased flexibility for local authorities

Local authorities are being helped by being given maximum flexibility in the use of their allocation. This is being achieved by making the HIP allocation for 1980/81 as a single housing block - previously it was in 3 separate blocks.

7-point programme for promoting low cost home ownership

The Government has urged local authorities in the HIPs allocation letter to promote low cost home ownership in the following ways:

1. selling council houses
2. securing of land release for builders
3. encouraging starter homes
4. low cost building for sale
5. schemes for improving and selling houses such as AIMS (acquisition improvement and sales) and homesteading
6. shared ownership schemes
7. help with mortgages for priority home buyers using new mortgage guarantee powers in Housing Bill.

#### Making better use of existing stock for rent

Three initiatives in the Housing Bill for the private sector to encourage more lettings by private owners. In the case of new lettings:-

- shorthold: fixed term lettings of 1-5 years (with landlords' right to repossession at the end)
- resident landlord lettings, with quicker repossession than at present. This should encourage lettings in some of the 900,000 or so houses with 2 or more spare bedrooms.
- assured tenancies; bodies specifically approved by the Secretary of State to be able to let new housing at market rents.

#### In the public sector

- in the Housing Bill the right to sublet; the right of secure tenants to take in lodgers or to sublet part of their home (at no extra cost to public funds).

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TABLE 1

HOUSING PUBLIC EXPENDITURE, ENGLAND  
 ALLOCATIONS FOR 1980/81 COMPARED WITH LABOUR'S PROPOSED  
 PROVISION, AND OUTTURN NOW FORECAST FOR 1979/80

	Against last Government's Provisional Allocations for 1979/80	Against Forecast outturn for 1979/80
Local authorities HIPs	- 33.4%	- 24%
Housing Corporation	- 17.6%	- 7%
New Towns	- 25%	- 11%
Overall	- 31.1%	- 21%

(£540m at 1979 SP)

TABLE 2

APPROVALS (THOUSANDS OF DWELLINGS)

	1975	1976	1977	1978	1979
Local authorities	107	106	64	60	40
New Towns	16	11	8	9	5½
Housing Associations	24	34	23	18	13
Total public sector	147	151	95	87	58

## RENTS AND EARNINGS 1974/5 TO 1979/80

<u>Year</u>	AVERAGE*	AVERAGE**	RENT AS A PERCENTAGE
	WEEKLY RENT	WEEKLY EARNINGS	OF EARNINGS
	£	£	
1974/75	3.81	47.70	7.99%
1975/76	4.28	60.80	7.04%
1976/77	4.91	71.80	6.84%
1977/78	5.58	78.60	7.10%
1978/79	5.90	89.10	6.62%
1979/80	6.49	101.40	6.40%

Sources: \* Based on unrebated rents as published in Housing and Construction Statistics.

\*\* Based on gross earnings of full-time men (21 years and over) engaged in all occupations for all industries and services (excluding those whose pay was affected by absence) as published in the Department of Employment Gazette - Great Britain.

## Press Notice

61

21 February 1980

### HOUSING PUBLIC EXPENDITURE

In a Parliamentary statement today on housing public expenditure Michael Heseltine, Secretary of State for the Environment, said:-

"With permission, Mr Speaker, I will make a statement on housing public expenditure.

"The background to the decision I am announcing today is well known to the House.

"This Government faces the task of setting public expenditure at levels which the nation can afford.

"If we fail, the problems with which we are all familiar will continue - a public sector consuming a disproportionate share of the nation's resources, high interest rates and declining investment in the private sector.

"The harmful effects of the policies of recent years can be clearly seen in housing. By 1979 for the average new council house, taxpayers and ratepayers were contributing towards a subsidy of £30 per week. Council rents had fallen to an average of 6.4 per cent of income - despite a commitment in the last Government's Green Paper to increase rents in line with earnings. The net result of Labour's housing policy was to make new building for local authorities so expensive that in every year after 1976 local authorities of both political complexions responded by reducing their programmes.

"And the rent policies of the last Government have been a major factor in the inability of local authorities adequately to meet housing costs, finance investment and maintain their stock.

"Against this background, we have reassessed our housing policy. The Government's expenditure plans for 1980/81 and later years will be published in a White Paper next month but the local authorities, the Housing Corporation and the New Towns need to settle their programmes now.

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"For these reasons, this year, I am, exceptionally, making an oral statement.

"Our reassessment of objectives must recognise the significant general improvement of housing conditions in the last 30 years. Home ownership has grown from 31 per cent to 55 per cent over that period, and we recognise the desire of most people to own their own home. In national terms, the supply of housing and demand are in better balance.

"Needs and problems have become increasingly specific and local. The emphasis of public sector housing policy now must be to meet particular needs, such as those of the elderly and the handicapped. We have to concentrate on modernising, improving and making better use of the existing stock, rather than on the general provision of new houses. And we must encourage home ownership and the private rented sector.

"We need therefore to adopt new priorities - priorities which are reflected in the Housing Bill and which are critical given the economic background.

"I come now to the programme for 1980/81. The housing investment programmes for local authorities in 1980/81 will be allocated £2,199 million at expected outturn prices. The Housing Corporation will be allocated £420 million for the work of housing associations. And the New Towns building for rent programme will be £151 million. In New Town development, the proportion of owner occupation is below the national average, yet the demand is high. In future, growth must be based increasingly on the private sector and homes for sale.

"Taken together, these three housing capital allocations for 1980/81 will in real terms, at 1979 Survey Prices, be about £540 million or 21 per cent lower than the forecast outturn for 1979/80.

"These figures are for England. My Scottish and Welsh colleagues are making separate announcements.

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"In the new circumstances, it is even more important that local authorities should use available resources in the most effective way to meet local needs.

"In order to encourage this, the housing allocation to each authority from April 1980 will be in a single block and they will have much greater ability to decide their own priorities. They will also have the new opportunities opened up by the Housing Bill.

"There is a range of ways to promote low cost home ownership - selling council houses; securing land release for builders; encouraging starter homes; low-cost building for sale, especially for tenants and those on the waiting lists; schemes for improving and selling houses such as acquisition, improvement and sale (AIMS) and homesteading; promoting shared ownership; and by helping priority home buyers with mortgages. In these ways people can be helped to become owners.

"Full details are in the allocation letter to authorities, copies of which are in the Vote Office.

"The priorities now must be value for money and concentration, under the more flexible arrangement, on the problem areas. In the private sector, the introduction of shortholds and the other provisions in the Housing Bill will improve the availability of rented accommodation without additional public expenditure.

"Exchequer subsidy to local authorities for housing last year amounted to £1,148 million in 1979 Survey Prices. The rent levels of recent years have not only prejudiced the abilities of local authorities to maintain adequately their housing stock but have contributed to the enormous burden of public expenditure.

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"I have therefore concluded that it would be right to issue a supplementary rent increase guideline of 60p a week on average over the second half of 1980/81.

"Mr Speaker, I have announced today a reappraisal which reflects our assessment of national economic and housing priorities. This is a necessary response to a situation in which the scale of housing subsidies increased under the previous Government to levels far beyond those the nation could afford. From now on we shall concentrate resources where they are needed; and I have today set out realistically what the nation can afford."

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