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Prime Minister 2

cc JM
FM

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LONDON SW1P 3EB

My ref:

Your ref:

cc WSO
JO

- 3 SEP 82

Dear Tim

FAMILY POLICY GROUP

As requested in your letter of 20 July to John Halliday, I enclose a copy of a paper by my Secretary of State for the next meeting of the Group.

Copies go to the recipients of your letter.

*Yours sincerely,
Roger Bright*

R BRIGHT
Private Secretary

Tim Flesher Esq

FAMILY POLICY GROUP - PAPER BY THE SECRETARY OF STATE FOR THE ENVIRONMENT

1. Following the meeting chaired by the Prime Minister on 20 July 1982 we were invited to assess those initiatives, aimed at developing a sense of individual self-sufficiency, already in hand in our various policy fields; and to make immediate and practical proposals further to encourage the growth of personal responsibility. My suggestions for action are described below. A summary of steps relevant to the Group's interests already taken by my Department are contained in Annex A.

Housing: Property Ownership and Management

2. There is no doubt about people's aspirations to own their own homes which, in turn, engenders a sense of both individual and community pride. I believe we can build on the dramatic progress made since 1979 to spread home ownership, without a major charge to public expenditure.

3. We expect that our present policies will have led to the sale of around half a million council houses in the life-time of this Parliament. My hope is that at the time of the election we shall fairly be able to claim that over 1 million people are living in homes they have only been able to buy as a result of our legislation. We plan to boost this performance by the measures we are introducing in the next session which include extending the Right to Buy to leasehold council dwellings, preventing unreasonable service charges being levied by local authorities on properties they sell, and - most important - by giving council tenants who cannot afford to buy outright a right to purchase on a shared ownership basis (see paragraph 6 below). We will couple these initiatives with a further aggressive publicity campaign next Spring. But there is still scope for doing more. I propose to come forward later this year with specific proposals for extending the Right to Buy in ways that are designed to stimulate an effective demand to purchase their council homes from a further half million potential purchasers. This will probably require some adjustment of the scale of discount of the value of council dwellings in relation to the length of time the purchaser has been a council tenant. Further work is needed before I can bring forward firm proposals. I should however make it clear at this point that I do not see any place for rent based mortgages with repayments starting at half average rent levels, as have been

suggested. Such a scheme would have serious disadvantages. Lenders run the risk of their loans becoming unsecured if the rate at which capital debt increases exceeds the rate of increase in the value of the mortgaged properties, even allowing for the RTB discounts. Borrowers could find that their income, over time, might be unpredictably outstripped by the sharply escalating outstanding debt. This is illustrated by the example set out in more detail in Annex B. With payments starting at £26.09 a month, the debt on a £9,000 loan taken out at an interest rate of 13% and an assumed 13% pa rise in the tax and price index would reach a peak of £17,412 and would be paid off in year 24. But if instead the tax and price index increased by only 10% pa the mortgage would have to run for 37 years and the outstanding debt would reach a peak of £36,000. Rent based mortgages would have a major financial trap for many families and the financial press is likely to advise extreme caution. A better route to home ownership is the right to shared ownership which effectively enables every tenant to buy whatever equity share of his house or flat he feels he can afford.

4. We would also encourage a more rapid transfer of council dwellings into private ownership by -

- tightening the rules for withdrawal of subsidy entitlement in the case of properties left vacant for more than a defined period. This would bite only on the diminishing number of authorities still entitled to housing subsidy but it could put pressure on more councils to release dwellings for homesteading (see below);
- extending the definition of assured tenancies to include stock built originally for council housing purposes but sold after a defined date to a private body approved for the purposes of the assured tenancy scheme under the Housing Act 1980. This could enable reputable builders to buy empty local authority houses and blocks of flats, let them at market rents whilst obtaining capital allowances on the acquisition and improvement costs. This could be done in this Parliament.

5. We propose to continue promoting other forms of low cost home ownership as vigorously as possible. Co-operation between local authorities and the private sector is being strongly encouraged. We have already intimated to local authorities that, subject to there being an adequate amount of housing capital provision in our public expenditure plans for 1983/84, we will bias HIP allocations in favour of those authorities active in this field, particularly those who are doing their utmost to attract private sector capital into home ownership ventures. I also propose to exhort authorities to use their council house waiting lists more constructively, for example by putting those on the list in touch with developers or estate agents who have starter homes available, or circulating them directly with details of low cost houses provided under partnership schemes between the authority and a builder.
6. Shared ownership is a promising and effective route into owner-occupation for lower-income families, but this concept is currently being held back because it has relied on the involvement of a public sector landlord for the purchase of the rented element of the dwelling. This situation need not continue. The Volume Builders are now persuaded of the merits of shared ownership. I propose a major stimulus to this approach by clarifying, in next year's Finance Bill, that shared ownership can be a form of investment rather than a trading activity, thereby attracting the benefits of the new capital allowance scheme to builders producing houses partly for private-renting as assured tenancies and partly for sale.
7. I also propose to stimulate more homesteading, ie the sale of a substandard property at the lowest possible cost for improvement by the purchaser. John Stanley is issuing A Guide for Homesteading targetted at local authority councillors that will be distributed to every council and will be available to the public.
8. The transaction costs of house purchasers can be reduced. A typical first-time buyer has to spend up to £400 on such costs, about two-thirds of which represents solicitor's fees. For a moving owner-occupier, the legal costs are much greater. The solicitor's conveying "monopoly" was considered by the English and Scottish Commissions on Legal Services which reached opposing conclusions.

The Government has not yet responded to these two reports. I recommend that we should investigate vigorously ways of reducing these legal costs, particularly for the great majority of straightforward cases dealing with registered land. One possibility would be to allow effective price competition for this legal work.

9. I intend to take further steps to improve the quality of local authority management of council estates, building on recent work by my Financial Institutions Group (FIG) and on our earlier Priority Estates Project (see Annex A). My major aim will be to break up the local authority monopoly on ownership and management using private sector tenants managements co-operatives and housing associations. I intend shortly to announce a major experiment along these lines in a particularly rundown and blighted estate on Merseyside where I hope to have secured the active co-operation of the local authority, the Housing Corporation, private developers and financial institutions.

Community facilities - recreation

10. Participation in sport and active recreation helps in the formation of positive attitudes, self-discipline, pride, self-reliance and team spirit - especially amongst young people. Neil Macfarlane is currently undertaking a campaign to bring underused sport and recreation facilities in the private and public sectors into more intensive use by all sectors of the community. Mr Macfarlane is also supporting work getting underway in the voluntary sector aimed at extending greater community use of sports facilities in schools and other educational establishments. He is similarly lending support to a Sports Council programme in London and the West Midlands to train leaders and motivators whose task will be to encourage greater involvement in sport and recreation activity, particularly by the young in inner-city areas.

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FAMILY POLICY GROUP - ANNEX A

ACHIEVEMENTS OF EXISTING POLICIES IN DOE
COUNCIL HOUSE SALES

Since the Government was elected local authorities and new towns in Great Britain had completed the sale of around 300,000 dwellings up to 31 March 1982. In addition at 31 March 1982 over ½ million tenants in Great Britain had applied to buy their homes under the right to buy (inclusive of completed sales).

On the basis of the present statutory provisions we can expect total sales (RTB and voluntary) to be close on ½ million by the next election. Provisions in next session's Bill - notably RTB leasehold, restrictions on service charges, and the right to shared ownership - will give a further boost to sales.

LOW COST HOME OWNERSHIP

Action taken

The concept of low cost home ownership (LCHO) was launched by John Stanley in 1980 in his speech to the Institute of Housing. It seeks active partnership between local authorities and the private house-builder. The idea has been promoted through a film and brochure, which has been widely shown to local authorities, builders and others; through examples of best practice identified and circulated by DOE Regional Offices; and through promotional work undertaken by the House Builders Federation in co-operation with the Department. The HBF have shown local authorities what their members can do, and are now following up these general presentations by detailed discussions with individual authorities on particular sites.

The 1980 Act helped the promotion of LCHO by removing legal obstacles and facilitating its development. In particular, grants may be made to help meet the gap between the cost of buying and improving houses and their eventual sale price; authorities may waive mortgage interest for homesteaders, obstacles to shared ownership were removed and authorities may guarantee building society mortgage loans. The new system of capital expenditure control gives authorities an incentive to co-operate - most LCHO initiatives give local authorities capital receipts which can be used to augment their capital spending programme.

About two-thirds of housing authorities in England currently intend to pursue at least one of the six main LCHO initiatives.

HOMESTEADING

One of the elements of the LCHO drive is homesteading; ie sale by public authorities of dwellings for improvement by the purchaser. Homesteading makes homes available to people who could not otherwise afford them (often these are people who have previously been living with parents or in rented accommodation). Homesteaders generally feel a particular sense of pride in their homes since they have been instrumental in improving them, either through their own skills or with the help of a contractor, to exactly the standard they want. Where a block of adjacent houses is being homesteaded a very good community spirit may develop as the work is carried out. About 60 local authorities intend to pursue homesteading in the current financial year. These range from authorities such as Manchester with a programme running into the hundreds to a number of authorities who are undertaking homesteading at around half a dozen dwellings a year. 3260 houses have been sold through homesteading schemes in the financial years 80/81 and 81/82.

The Department first publicised homesteading through Circular 20/80. The Department's films on low cost home ownership and home improvement which have been very widely shown have given further publicity to the scheme. We are now producing a booklet on homesteading aimed particularly at drawing the scheme to the attention of local authority councillors.

The use of mortgage interest waivers, mortgage guarantees, more flexible and generous improvement grants and discounts on the purchase price (to certain categories of purchaser) - all provided under the Housing Act 1980 and subsequent administrative action - have made the scheme attractive to homesteaders. Local authorities for their part appear to find homesteading a useful means of dealing with scattered municipalised dwellings which they cannot afford to maintain themselves and helpful in reducing the size of waiting lists for their own stock. Because the scheme is very flexible in concept local authorities are able to work out what best meets the needs of their area.

HOUSING MANAGEMENT

Difficult-to-let Estates

In the mid-1970s the Department researched the emerging problem of difficult-to-let public sector estates. Findings indicated that the main ingredients which made up for a difficult-to-let estate were poor design and layout, lack of security and vandalism, poor landscaping and brutalised common areas, inadequate community facilities, dumping of families with severe social problems, and housing management and estate services which had failed or were poorly delivered. In many areas tenants had abandoned hope and their lack of pride and concern for the environment contributed to the overall decline. A wide gulf had developed between the public landlord and the tenants. In many areas both sides had given up the fight to maintain and improve standards.

Subsequently some 40 local authorities have developed a wide range of initiatives with advice and support from DOE and in certain instances, aided by Urban Programme funding. The aim has been to establish local and improved housing management services allied to the involvement and participation of tenants in the decisions affecting their environment. Most of the initiatives include anti-vandal and security measures. Many of them have tenant-based and tenant-managed community activities.

At the same time we approved the setting up of Department funded Priority Estate Projects (PEP). Three consultants were engaged with special skills in the development of tenant consultation. Two are working on specific projects in Bolton and Hackney. The third was given a special role in Lambeth and a peripatetic task to aid the development of a number of separate local authority initiatives. Two reports highlighting the lessons from PEP have been produced and distributed to all local authorities, and a film is now underway. Showing will start later this year. We have taken opportunities to drive home the message of improved housing management in speeches at major housing conferences. The Department's Housing Services Advisory Unit and the consultants continue to disseminate good practice through seminars organised by various bodies.

COMMUNITY REFURBISHMENT SCHEMES

Community Refurbishment Schemes have been set up in Merseyside covering

6 estates and around 3,500 dwellings. The key elements of the schemes are:

1. Locally-based housing management and repairs services
2. Carrying out of all repairs and repainting
3. Anti-vandal, security and environmental clean up measures
4. Employment from within the estates of both skilled and unskilled unemployed residents
5. Development of tenant groups and community activities
6. The consultation and involvement of tenants in the changes taking place and the management of certain estate functions.

Funding over two years through the Manpower Services Commission, Urban Programme and local authorities of around £2,500 per dwelling is envisaged.

Two additional schemes at Ellesmere Port and Halton are planned and I have recently instructed the Merseyside Task Force to proceed with a further 5 schemes. By employing local residents and involving the tenants in the work and management of their estates, the aim and hope is that not only will they be better places in which to live, but that pride will be restored and the gulf between town hall and tenants be closed.

TENANTS GRANT SCHEME

Bolton is experimenting with a Tenants Grants Scheme. The local authority will carry out compulsory envelope improvements under a single contract, but tenants will follow on with voluntary improvements to the interior of their homes, within certain structural and layout constraints. Grants will be made available to tenants for each "unit" of improvement (eg to kitchen, bathroom etc) which they are free to top up. Some virement is allowed. The tenants will thus be able to plan their own improvements, select a contractor, invest their own resources if they wish, and supervise the work. Bolton expect the total cost to them to be less per unit than under the normal system. PEP will monitor the outcome.

NATIONAL ASSOCIATION FOR THE CARE AND RESETTLEMENT OF OFFENDERS (NACRO)

The Department has close links with NACRO who have developed techniques in tenant consultation, estate improvement and anti-vandal measures. They are now working with several local authorities and they are

currently seeking to spread their work through 70 local authorities via Urban Programme applications.

HOUSING ACT 1980

The Housing Act 1980 gave to tenants of public sector housing a range of rights which are embodied in the Tenants Charter. The rights are aimed at giving tenants a better deal and to allow them to have a greater say in how their estates are managed. The Department through a City University research project are monitoring local authorities response to the Charter provisions. Some best practice will emerge and this will be disseminated.

TENANT MANAGEMENT CO-OPERATIVES

By 1981 there were some 45 local authority tenant management co-operatives in England and 15 of them are now operating under agreements approved by the Secretary of State; other agreements are in preparation.

The Department has circulated a set of guidelines and a model agreement to local authorities. We also published a report in 1980 entitled "Management Co-operatives: the Early Stages". A second report by the Department on management co-ops, nearly complete, shows that the development of co-ops has been slow, despite the apparent benefits to tenants and authorities; we hope to publish this report later this year. There are not many examples of existing tenants trying to transform their own estate into a co-op; it may be that more sensitive management by the local authority is what the majority prefer. Many authorities also seem unconvinced of the value of co-ops and there is a general lack of information among tenants and authorities about what has been and can be achieved. Any significant increase in the number of management co-operatives would probably require active promotion by the Department (with dissemination of the research findings); on the job training for prospective co-operators; and the possible use of financial incentives. However, estate based tenant participation in management and increased involvement of tenants under the Tenants Charter could prove a stepping stone to the establishment of co-ops on existing estates.

TRAINING FOR HOUSING MANAGEMENT

The Department has strong links with a number of outside bodies involved in housing. There is a shortage of well-trained housing management personnel and this has no doubt contributed to the quality of the housing management service. Two of the bodies in particular, the Institute of Housing and the Local Government Training Board provide funds and facilities for the training of housing staff. The Department has encouraged in various ways improvement in the provision of housing management and training, but has stopped short of direct funding believing that it is the job of employers to train their staff.

INNER CITIES

A central plank of DOE's inner cities policy is the involvement of private industry more closely in the work of the local authority and the community generally. The organisation Business in the Community, a group of industrialists chaired by Sir Alistair Pilkington, aims to increase the sense of responsibility which private industry feels towards the community in which it is placed.

Urban Development Grant is available to support commercial provision of sports and other community facilities; and for capital development by voluntary organisations who are able to obtain substantial backing from the private sector, be they corporate or individual donors.

Through the Urban Programme we are continuing to support a large number of community organisations in urban areas. Many of these, especially the black groups, have the effect of increasing self-reliance and self-respect among the group's members.

COMMUNITY FACILITIES

The Merseyside Task Force, in consultation with the local schools inspectorate, are proposing an initiative to increase the wider use of school facilities in that area. They have approached Liverpool City Council.

Where dual use of schools is held up by a lack of funds, Urban Programme funding is in principle available.

£0.5m has been made available within Urban Programme resources for 1982/83 for additional summer holiday projects; many of these involve the use of schools and other local authority premises. A letter to inner city partnership and programme authorities, sent on 13 August, urges them to consider the need for holiday projects, and measures aimed more directly at reducing crime and vandalism, within their inner area programmes.

The rent based mortgage

Rent based mortgages have been suggested as a way of helping council tenants with low incomes to afford to buy their own homes, without Government subsidy other than the normal tax relief on mortgage interest. Initial mortgage payments would be set below the level of rents, to allow the purchaser a margin to meet his new responsibilities, notably the costs of repair and maintenance. His mortgage payments would subsequently rise in line with a price index.

In the early part of the mortgage term, the outstanding debt would grow, because the payments made would not be enough to meet the interest due. The balance would therefore be capitalised. But the rise in mortgage payments is intended eventually to pay off the entire debt.

Low start mortgages could have an important role in extending home ownership among council tenants, since the security is generally protected by ^{the} large discounts on market value available. If councils wished to offer any such schemes, they may do so now. But the concept can be taken too far. If borrowers initial payments are set well below rent levels, then the debt is likely to grow considerably and the time needed to pay off the loan will lengthen. This can be illustrated by the following example: a £9,000 loan is taken out at an interest rate of 13% and with an assumed 13% pa rise in the tax and price index. Payments start at £26.09 a month. The outstanding debt mounts to £17,412 in year 14 and reduces to nil in year 24. But if the tax and price index increases by only 10% pa (interest remaining at 13%) the mortgage would have to run for 37 years, and the outstanding debt would reach a peak of £36,000.

In an extreme case, payments due might never catch up with the growing debt. This is particularly true when, as at present, interest rates are positive in real terms. The same characteristics make the loan more risky for the lender than conventional mortgage terms.

A better way of helping tenants to buy is to give a right to shared ownership as proposed in the Bill for next session. The tenant can buy

a share in his house without having to over-extend himself financially or run the risk of escalating debt. His initial outgoings would not be very much greater than the full rent he would otherwise have been paying.

There is however nothing to stop sympathetic local authorities from running such schemes now. Indeed, the objective of reducing the "front end loading" of mortgage repayments can be achieved by using "low start" (deferred payment) mortgage schemes of various sorts, including a scheme recently launched by the Halifax Building Society.