

~~PRIME MINISTER~~

Am Sam

HOUSING ANNOUNCEMENT

At Flag A is the draft written answer which Mr. Heseltine wishes to make tomorrow.

I have checked the precedents, and it is a fact that the housing investment allocations have been announced by written answer in the past, or by press notice. Mr. Heseltine announced the revised figures for 1979/80 by press notice last August when Parliament was not sitting. In 1976/77 when large housing cuts were announced after the IMF loan, Mr. Healey included them in his mini budget statement; the detailed figures were then given in a letter to local authorities.

There is no doubt that the new figures for 1980/81 will cause a row. The total figure is £2,199 million at 1980/81 prices compared with the figure of £2,544 million at 1979/80 prices for the current financial year: this means a real reduction of 32%.

The Treasury are inclined to Mr. Heseltine's view that a written answer would be better.

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14 February 1980

A DRAFT

To ask the Secretary of State for the Environment if he will make a statement about housing investment programmes allocations to local authorities for 1980/81

Local authorities are being informed today of their individual allocations and I am placing in the Library of the House the details of the allocations and the accompanying letter sent to each authority. The letter also advises authorities of a supplementary guideline rent increase of 60p a week on average in respect of the second half of the year 1980/81.

CONFIDENTIAL



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15 February 1980

HOUSING INVESTMENT PROGRAMME ALLOCATIONS FOR 1980/81

INTRODUCTION

1. This letter informs your Council of the Government's decisions on the housing capital allocations for local authorities in the year 1980/81. It describes the main policy considerations underlying those decisions, and notifies you of the sum allocated to your authority.

THE NATIONAL ALLOCATION

2. For 1980/81 the Government has decided to allocate for investment in housing £2198.8 million at 1980/81 outturn prices, including about £12.5 million for insulation grants under the Homes Insulation Scheme (see paragraph 24(II) below).

POLICIES AND PRIORITIES

3. Authorities will be free to make use of their allocations according to their own priorities under the one-Block arrangements which come into effect on 1 April 1980 (see paragraph 26(1) below).

Your Council may however find it helpful, in considering their programme, to know of the policies and priorities which the Government regards as important in the light of the capital available and the Housing Investment Programme submissions of local authorities.

Housebuilding for rent

4. The Secretary of State considers that housebuilding for rent in the public sector should be concentrated on meeting those housing needs which, taking account of the Housing Bill now before Parliament, are unlikely to be able to be met other than by the provision of publicly rented accommodation. In judging their priorities local authorities will want to bear in mind the provisions in the Housing Bill to increase the availability of private rented dwellings (see paragraph 25 below) and those which will substantially improve the ability of authorities to promote low-cost home-ownership.

The promotion of low-cost home-ownership

5. The Secretary of State believes that, in close co-operation with the housebuilding industry and the building societies, the local authorities can make a significant contribution towards the promotion of low-cost home-ownership. The Government's Housing Bill will widen the powers of local authorities in this area.

6. Local authorities can further home-ownership in the following ways:-

a) Selling Council houses

7. The Housing Bill which gives council tenants the right to buy their homes has now received its Second Reading. The Secretary of State's proposals for the treatment of housing capital receipts, which include receipts from the sale of council houses, are set out in paragraph 5 of the Consultation Paper "Capital Expenditure Controls - Response to Local Government Comments". For convenience this paragraph is reproduced as Annex A to this letter. The

Secretary of State asks authorities which are not selling Council houses under the existing general consent to consider doing so in order to meet the wishes of tenants who want to buy.

b) Securing land release to private builders

8. Local authorities should ensure that land for private housebuilding in accordance with approved structure and local plans is genuinely available for development and should make detailed assessments with private housebuilders to ensure this. Authorities should review their own land holdings rigorously and place on the market as soon as possible any land that is not clearly required for their own needs. Receipts from housing land sales will be deemed "housing capital receipts" and it is proposed that they will be treated as set out in Annex A.

c) Encouraging starter homes

9. Very many one and two-person households would prefer to buy their homes rather than renting them. But few one-bedroom homes can be purchased and they account for an even smaller proportion (4%) of houses newly built for sale. The report on starter homes recently published by the Department shows that where house-builders have built smaller new homes at relatively high densities they have not only been able to bring prices down but to provide accommodation which, because it is compact and easy to furnish and run, meets the needs of single people, and small households, especially those setting up home for the first time. Local housing and planning authorities are asked to consider the need for small, lower-priced homes for sale in their areas and to encourage building for this purpose. A copy of this report is enclosed.

d) Building for sale

10. Authorities should consider releasing land for building for sale schemes.

11. The common practice of authorities is to sell houses built for sale in this way principally to existing Council tenants and those on the waiting list thus both extending home ownership and at the same time creating vacancies in the authorities' stock for those who need a house to rent. The Secretary of State sees 'partnership schemes' of this kind complementing rather than duplicating conventional private development.

12. In such schemes some authorities will prefer to retain ownership of the site and to invite a developer to build under licence. In this way authorities, having retained the freehold of the land, are then in a position to sell the completed houses under the terms of the general consent for council house sales. The discounts permitted by the consent can be offered to the purchasers provided that the selling price is not less than the historic cost of the land plus the cost of the house itself. For vacant houses, the discounts allowed (which are deducted from the market value with vacant possession) are up to 20% where a 5-year pre-emption condition is imposed and up to 30% with an 8 year pre-emption.

13. The Department are ready to advise on the detailed aspects of 'partnership schemes' in the light of previous successful ventures by authorities.

e) Improving for sale (AIMS)

14. The Government's Housing Bill removes any doubts which there may be about whether local authorities have power to buy older properties with the agreement of their owners for improvement and resale for home-ownership. Where the cost of buying and improving is more than the market value of the improved property the Bill also provides, in Clause 96, for a Government contribution towards that deficiency. Improvement for sale will enable local authorities to use the expertise which they have developed through their rehabilitation programmes in a way which will provide new opportunities for low-cost home-ownership and will make an authorities' HIP allocation go further.

15. When an AIMS dwelling is purchased receipts will accrue to the local authority either as a lump sum, where a building society mortgage is used, or in periodic repayments where the local authority gives a mortgage. These receipts will be available for use by the authority on the same basis as other housing capital receipts as set out in Annex A.

16. Housing Associations will also be able to undertake AIMS programmes. Clause 110 of the Housing Bill gives the necessary powers and Clause 112 provides for the payment of housing association grant to match the Exchequer contribution to local authorities in Clause 96. Authorities will want to encourage housing association AIMS schemes in their areas.

f) Shared ownership

17. The Secretary of State sees shared ownership as an important bridge between renting and full home ownership, whereby their tenants can part-rent and part-buy their homes initially, with the option to buy the whole of the equity at a later date. Authorities will be able to use shared ownership in three ways:-

a. Authorities in their building for sale schemes will be able to offer the alternatives of an outright sale or a shared ownership sale.

b. Authorities will be given the same flexibility when selling AIMS dwellings.

c. Authorities will be able to offer a shared ownership sale at the original valuation to sitting tenants if tenants are still unable to buy at the end of the two-year option period.

18. The Housing Bill will remove various technical obstacles to the use of shared ownership. The validity of arrangements containing an option to buy the freehold reversion to a property will

be placed beyond doubt, and existing options will be validated. It is proposed to remove an existing conflict between shared ownership and certain provisions of the Leasehold Reform Act 1957. Consideration is also being given to the removal of an anomaly whereby shared owners can pay more stamp duty than people buying a property of equivalent value outright. The Secretary of State hopes that local authorities will take full advantage of these legislative improvements to help those now renting who want to move towards full home ownership or shared ownership.

g) Helping priority housebuyers to obtain mortgages

19. The Secretary of State wishes local authorities to help channel mortgage finance towards those unable to obtain a mortgage from building societies or other financial institutions and is taking steps to help them do this.

First the separate HIP block for mortgage lending and private sector improvement is being subsumed into the One Block system.

Second, the Building Societies have agreed that the Support Lending Scheme for 1980/81 should make £400 m available for lending in Great Britain.

Third, the Housing Bill will give local authorities power to guarantee Building Society mortgages.

Promotion of improvement and energy conservation

20. Here too, the Secretary of State sees the opportunity for new initiatives and a new approach by local authorities. Public funds are limited and it is important that they are used in the most effective way. Essentially this means concentrating on those areas where, without public sector financing, little or no improvement is going to take place and housing is at risk of decaying into demolition.

i. Private sector

21. The Housing Bill gives the Secretary of State wide new powers which will enable the whole system of renovation grants to be directed more specifically at really substandard housing. Proposals for the detailed use of these powers will be announced at a later date but in the meantime local authorities should concentrate effort and resources on encouraging and promoting the improvement of housing which is fundamentally unsatisfactory. Full use should be made of their discretion to waive grant requirements; unnecessary bureaucratic procedures should be eliminated. Where unsatisfactory housing is standing empty, the new AIMS proposals will give local authorities and housing associations the opportunity to act by improving for sale and thus recovering most, if not all, of their acquisition and improvement costs. As a further alternative, authorities should consider GLC 'homesteading' type schemes under which such property is acquired for resale, particularly to first time buyers, subject to an agreed programme of improvement works to be carried out by the purchaser with the aid of renovation grant.

ii. Public sector

22. The same general approach is relevant to local authorities' own housing. Generally speaking authorities do not have large numbers of houses which lack basic amenities or which otherwise simply fail to measure up to today's standards but there are, within almost any local authority stock, houses which are at risk of becoming 'difficult to let'. It is on these that action should centre.

iii. New rights for tenants

23. Provisions of the Housing Bill will extend to public and private tenants the basic right to improve their homes, with the same access to financial assistance as has, for many years, been available to house owners. This opens up a new avenue for the improvement of older housing in both public and private sectors. The increased

flexibility and greater ease of access to grants for the installation of basic amenities which are contained in the Housing Bill will be of particular relevance and value to tenants and to owner-occupiers with low incomes.

iv. Energy conservation

24. I. Public sector

For 1980/81 there will be no separate allocation of resources for the local authority home insulation programme; within their overall allocation it will be for each local authority to determine how much to use for this particular purpose. A good deal of progress has been made in insulating the existing local authority stock and the Secretary of State hopes that in the interests of national energy conservation authorities will continue to give priority to this work. In particular he is concerned that the needs of the elderly, chronically sick, and other disadvantaged groups should be met.

II. Homes Insulation Scheme

Eligibility under the Scheme has been extended, and most public sector tenants, as well as tenants and owners in the private sector, are eligible for grant. Local authorities should try to ensure that the availability of grant aid is generally known, particularly to those in greatest need of insulation.

New initiatives to encourage the private rented sector

25. The Government are taking three important initiatives in the Housing Bill to encourage more lettings by private owners. These should help to reduce the pressure for rented accommodation in the public sector. First, shorthold will provide tenants with full security at fair rents for fixed terms of between one and five years while giving landlords the clear right to repossession at the end of the term. Second, owner-occupiers who let part of

their homes will be able to do so in the knowledge that they can regain possession quickly if they need to. Third, bodies approved by the Secretary of State will be able to let housing built after enactment under assured tenancies at market rents. All three schemes apply to new lettings and do not affect existing tenants.

Greater freedom for local authorities

26. To give local authorities more freedom to pursue these policies and to shape their programmes according to the needs of their areas, the Government is making three major administrative changes:-

(1) The HIP allocation for 1980/81 is a single Block comprising all the types of housing investment formerly grouped into three Blocks. Authorities will therefore be free to decide their own spending priorities, provided that any expenditure on land and municipalisation is consistent with the policy indicated elsewhere in this letter.

(2) Under the revised proposals for the control of local authority capital expenditure which are to be introduced in April 1981, authorities will be free to augment their capital allocations by a sum equivalent to 50% of their housing capital receipts, including any unspent receipts in hand on 1 April 1981.

(3) As announced on 22 January, the Secretary of State proposes to replace the present procedures for controlling individual housing projects with a system which, while incorporating necessary financial disciplines and enhanced accountability to the local electorate, will give local authorities much greater freedom to decide what kind of housing will best meet their local needs. The present procedures must continue until the new subsidy system is introduced, but in the meantime the Department will consider sympathetically applications for the relaxation of Parker Morris standards.

REVISED RENT GUIDELINE

27. The Secretary of State has already indicated to local authorities, in the context of the Rate Support Grant settlement, a guideline average rent increase of £1.50 a week to be applied by those authorities statutorily able to do so. He now considers that his previous guideline needs to be supplemented in respect of the second half of the year 1980/81 and advises that authorities, statutorily able, or when statutorily able to do so, should make a further increase of 60 pence a week over that six month period.

ALLOCATION METHOD

28. Broadly, the principles used to determine the allocations for 1979/80 have been followed: regional allocations have been determined first and then local allocations made on the advice of the regional offices, taking into account the discussions which have taken place with individual authorities.

29. The regional allocation method has been developed from that used for 1979/80, with the same components taken into account: concentration of housing needs in Inner City Partnership and Programme Areas, estimated contractual commitments, cash requests by local authorities and an index of housing needs. However, the balance between the components has been adjusted to give somewhat greater effect to the index of housing needs, so as to reflect the Government's view that allocations should be related as far as possible to an objective assessment of need. This has been done by retaining the concentration of needs element, reducing the pre-allocation of commitments to 50% of estimated contractual commitments and reducing the percentage of local authority cash requests in the distribution of "new money" to 25%, the remaining 75% of "new money" being distributed according to a general index of housing need. The "safety net" mechanism has been retained but modified so that no region receives in real terms more than 75% or less than 65% of its revised (August) allocation for 1979/80.

30. Individual allocations have been determined using three elements. Regional funds set aside for concentration of need were distributed to suitably qualifying authorities. A general needs index for each authority was used to distribute a proportion of the regional allocation. The remaining funds were distributed having regard to: national policies; to the Housing Investment Programmes and strategies of each authority; to the need to take account of commitments; and to the extent to which authorities have made full use of past allocations.

PROCEDURES FOR 1980/81

31. Expenditure types. Within the One-Block allocation for 1980/81 (see paragraph 26 above) authorities will be free to spend as they wish on the following types of expenditure:-

- i. New housebuilding, including the acquisition of land under Part V of the Housing Act 1957, and the acquisition of newly-built dwellings and the clearance of land acquired under Part V of that Act; the present arrangements for borrowing approval by the Secretary of State for local purchases will continue;
- ii. Slum clearance, including the acquisition of land under Part III of the Housing Act 1957;
- iii. Renovation of local authorities' own dwellings, capitalised repairs, energy conservation works and environmental expenditure;
- iv. Private sector renovation grants;
- v. Gross lending to private persons for house purchase and renovation;
- vi. Gross lending to housing associations (including any on account grant payments in lieu of loans during the life of projects); and

vii. Within the categories and subject to the conditions listed in Annex B the acquisition of existing dwellings. Specific borrowing approval is required for any other such acquisition.

32. Energy conservation. A separate amount is identified, within the total allocation, for the Homes Insulation Scheme. This amount is made available by statute specifically for private sector insulation grants and may not, therefore, be viwed into the main allocation. Nor do tolerance arrangements apply to it.

33. Tolerance arrangements. Authorities will be able to carry forward into 1980/81 unused allocations for 1979/80 to the extent determined by the existing tolerance arrangements for the three separate Blocks, as set out in Annex D to the Department's letter of 29 November 1978 which announced the provisional allocations for 1979/80. Because of this arrangement and the importance of restricting expenditure within the HIP cash limit for 1980/81, it will be necessary however to amend the arrangement under which authorities may in 1980/81 spend in anticipation of the capital allocation which they will receive in 1981/82. The arrangement will be that they may anticipate the allocation of 1981/82 by a sum equivalent to 5% of their HIP allocation for 1980/81, but only with the prior express consent of the Department through consultation with the Regional Office, Whether such anticipation will be possible will be decided in the light of forecasts of the likely level of spending nationally and it is unlikely that approvals of anticipation can be given before the autumn. The right to carry forward sums from the 1980/81 HIP allocation into 1981/82 will be determined by the tolerance arrangements incorporated in the new system for controlling capital expenditure by local authorities which the Government plans to introduce in April 1981 (set out in the consultation paper on capital expenditure controls which was sent to local authorities on 1 February 1980).

34. Treatment of overspending from 1979/80. Any sum anticipated from 1980/81 to supplement the allocation for 1979/80, including

overspending in excess of tolerance provisions on any of the three Blocks, is automatically deemed to be first call upon your capital allocations for 1980/81. Likewise, any consequent borrowing in excess of the amount specified under the borrowing approval for 1979/80 will count against your borrowing approval for 1980/81.

35. Borrowing approval for 1980/81. The formal terms for the borrowing approval in respect of the allocation for 1980/81 are set out in the Annex to this letter.

ALLOCATION FOR 1980/81

36. Your Council's Housing Investment Programme allocation for 1980/81 is £ m including the self-contained allocation of £ for private sector insulation grants. (See paragraph 32 above).

EXPENDITURE COMMITMENTS FOR 1981/82 AND 1982/83

37. As indicated in the paragraphs above on the allocation method, the Secretary of State's policy is that, in allocating resources to local authorities for investment in housing, assessments of housing need should have increasing weight and therefore that commitments should have less weight. This policy is relevant to decisions on commitments to expenditure in later years: authorities will clearly need to enter into commitments in 1980/81 which will result in expenditure in subsequent years, but they should bear in mind that local housing needs will be given greater weight in the distribution of subsequent allocations. Further guidance on commitments resulting in expenditure in later years will be given during the coming financial year.

MANPOWER AND FINANCIAL IMPLICATIONS

38. This circular letter is not expected to have any manpower

implications for, or to impose any additional financial obligations on, local authorities.