

PRIME MINISTER

The Chancellor and Mr. Heseltine are still unable to resolve one aspect of the regulations to be introduced under the terms of the Housing Bill. This concerns the provision for mortgages to people buying local authority houses. Mr. Heseltine believes that the 2½ times multiplier should be applied to all applicants for mortgages. The Chancellor is not happy that applicants in later life should have their mortgages assessed on this basis.

Mr. Heseltine has asked if he and Mr. Stanley could come to see you with the Chancellor on Monday about this. The Chancellor is not keen to have the matter referred to you, but he and the others would be free at 1230 on Monday. The Chancellor would wish a Health Minister to be present if the meeting takes place. We could get Mrs Chalker for this.

I know that you hoped to avoid being drawn into this. Do you want us to tell the Ministers concerned that they must resolve it without reference to you or are you prepared to accede to Mr. Heseltine's request for a meeting?

It would be helpful if you could tell the Garden Room Girl of your decision so that we can warn the Ministers concerned if they are required on Monday.

*If they can't resolve it - they can come and see me. MJD
with supplementary background papers. change the rules. not*

Some background papers are attached should you decide upon a meeting

8 August 1980



Treasury Chambers, Parliament Street, SW1P 3AG
01-233 3000

8 August 1980

M. Pattison, Esq.,
Private Secretary,
10, Downing Street

Der Mike,

HOUSING BILL: MORTGAGE ENTITLEMENT

..... We understood until last^{to} this afternoon that it was unlikely
..... that the Prime Minister would be holding a meeting on Monday
..... to discuss this matter with the Chancellor, Mr. Heseltine,
..... and a DHSS Minister. We have not therefore had time to
..... prepare, as we would normally have done, a minute for the
..... Chancellor to send to the Prime Minister. The Chancellor
..... has however asked me to send you the enclosed brief, which
..... was prepared for him in advance of this afternoon's meeting
..... with Mr. Heseltine. You may also find it helpful to have
..... Miss Mackay's brief of 6 August, which I also enclose.

Ys ever,

M.A.

M.A. HALL

CHANCELLOR

cc PS/CST
PS/FST
Sir A Rawlinson
Mr Bailey
Mr Kemp
Mrs Gilmore
Miss Mackay
Mr Cardona
LGCS

HOUSING BILL : MORTGAGE ENTITLEMENT

I understand that a meeting has now been arranged with the Environment Secretary for 3.30 this afternoon.

Probable DOE line

2. Mr Heseltine is likely to say that it is of vital political importance to give every council tenant the right to a 25 year mortgage equal to 2½ times his present income. To give less to people nearing retirement would be unfair discrimination, which would be especially damaging now that the Lords amendment has denied many elderly tenants the right to buy.

3. He may say that building societies do not discriminate against older people in this way and that they regard the value of the property as giving adequate security; and that they do not rule out the terms which he proposes.

4. On the public expenditure implications, he may say that this should be looked at in the round: overall, the sale of council houses will reduce the burden of housing subsidies. As regards older tenants, he may point out that in the years before retirement the state will benefit from the fact that the tenant is paying more to his authority than he would have paid in rent (thereby reducing the burden of subsidies). By the time they retire and (perhaps) become dependent in supplementary benefit, the mortgage interest payments will have diminished in real terms (because of inflation and the pattern of annuity payments) and may be less than the rent payments which the state would have had to cover if he had remained a tenant.

Mr Heseltine may further argue that if the Treasury believes it is wrong in principle for supplementary benefit to meet old people's mortgage interest payments, then they should change the supplementary benefit rules, not erode the right to buy. Building societies - and local authorities - are already able to grant mortgages on the basis which DOE now propose.

Suggested response

6. It is not unfair discrimination, when assessing someone's ability to repay a 25 year mortgage, to consider the length of time he has to go to retirement, and the nature of his pension rights.

6. As to building societies, it is hard to believe that they would give the terms proposed by DOE to a 64 year old with only a state pension to look forward to. But in any case, what building societies do is rather beside the point. The Government must have regard to the public expenditure implications, in which the building societies do not have a locus.

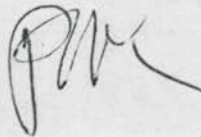
7. The public expenditure effects are not simple to establish. They depend on a number of things, including the length of time to retirement and the rate of inflation. For people within a year or so of retirement it seems self-evident that the DOE proposal will be disadvantageous to public expenditure. Whether this would also be for people within 10 or 15 years of retirement cannot be established without further work.

8. In the discussions between officials earlier this week, it was suggested that the mortgage entitlement should be tapered after the age of 50. If further work showed that the DOE proposals could be affected beyond that age without adverse consequences for public expenditure, well and good.

9. As to the supplementary benefit rules, there may well be a case for a change (although DHSS would dislike changes so soon after the recent review). But what DOE propose would make it more difficult to change the supplementary benefit rules; people could claim that they had exercised their statutory right to a mortgage on the assumption that supplementary benefit would be available to help meet the cost.

Summary

10. I recommend that you seek to persuade Mr Heseltine that (a) there is no prospect of your agreeing to his present proposal, (b) officials should work out arrangements which on reasonable assumptions would not be disadvantageous to the public purse.



P J KITCATT
8 August 1980

MR KITCATT *R*

2. CHIEF SECRETARY

cc Chancellor *K*
FST
Sir A Rawlinson
Mr Bailey
Mr F E R Butler
Mr Kemp
Mr Cardona
LGCS

CABINET 7 AUGUST : HOUSING BILL

This minute alerts you to an issue affecting public expenditure which the Environment Secretary might seek to raise at Cabinet tomorrow under Parliamentary affairs.

2. The issue concerns the mortgage entitlement of tenants exercising the right to buy. DOE want every tenant to have a right to a 25 year mortgage equal to $2\frac{1}{2}$ times his current income, even if he is on the brink of retirement and has no occupational pension rights.
3. This appears to fly in the face of common sense. Moreover it has serious public expenditure implications because tenants who became dependent on supplementary benefit after retirement would be entitled to have their mortgage interest payments met by the State.
4. The Financial Secretary has authorised us to oppose the DOE proposal and to ask for rules which limit the risk to public expenditure by relating the mortgage entitlement to the imminence of retirement.
5. We have discussed this with DOE officials. We are satisfied that it is practicable to modify the mortgage entitlement according to age. No one would be denied the right to buy. The rules would not require the exercise of discretion by local authorities. The arrangement could be presented as a fair and prudent way of avoiding an unnecessary additional claim on public expenditure.
6. We have told DOE officials that if their Ministers are not prepared to modify their proposals they should take the matter up with the Financial Secretary and with the Social Services Secretary. (The public expenditure implications arise on the DHSS programme).

7. The issue has to be resolved very soon, because the rules have to be made by statutory instrument in good time for the implementation of the right to buy 8 weeks after enactment.

8. There is therefore a danger that the Environment Secretary will seek to bypass a bilateral discussion by raising the matter in Cabinet. If he does, we advise you to hold firm to the Treasury's position set out in paragraph 4 above.

Eileen Mackay

MISS E A MACKAY
6 August 1980

PMK 6/8