CABINET

HOUSING

MEMORANDUM BY THE MINISTER OF HOUSING AND LOCAL GOVERNMENT AND MINISTER FOR WELSH AFFAIRS

I attach a Paper on Housing. I apologise for its length, but I think we ought now to review housing policy, and for that purpose, and in order to consider my proposals, the Cabinet will need a fairly full account of the present situation.

2. My suggestion is that we should introduce a Bill next session to recast the housing subsidies, to stimulate private owners to make more use of improvement and conversion grants and, possibly, to break the monopoly of local authorities in building to let by encouraging the development of housing trusts for this purpose.

3. One result of my proposals on subsidies will be to force up the rents of local authority houses. This should begin to take effect by the end of 1961 and continue throughout 1962 and into 1963.

4. I must remind the Cabinet that houses are to be revalued on current values as from April 1963. That will increase the householder's share of the rate burden, though by how much depends on what we do in the Rating and Valuation Bill (also to be introduced next session) on which a Paper will shortly be circulated. For many municipal tenants therefore there will be rent increases followed by rate increases.

5. There will be storms. But we have got to do it, and we must get the rent increases out of the way as far as we can before the revaluation takes effect. This means that we must take the Housing Bill next session. We also have to take the Rating and Valuation Bill then, as completion of the revaluation will depend on some of its provisions.

6. I propose to have the Rating and Valuation Bill ready for introduction at the beginning of the session, the Housing Bill to follow in the New Year.

H. B.

Ministry of Housing and Local Government, S.W. 1,
17th June, 1960.
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ANNEX

HOUSING POLICY

I.—Introduction

I believe the stage has been reached where housing policy in England and Wales needs to be given a change of direction, and for that reason I must ask the Cabinet to take a comprehensive look at the matter. There are three main aspects.

2. The first is subsidy. I think the time is ripe for a radical reshaping of subsidy arrangements, with the basic objects of directing subsidy where it is most needed, and of making payment of future subsidies conditional on the local authority pursuing an adequate rent policy and showing financial need. This would involve legislation. If the principles set out in section III of this paper meet with approval, I would like to bring forward a Bill next Session.

3. The second aspect is building to let. Since the war, practically all building to let has been done by public authorities; private enterprise has concentrated on building for sale. This situation will drag on unless we can encourage private enterprise to come back into building to let or can bring in other non-municipal agencies, such as housing associations or trusts, to help fill the gap. Though the problem is difficult, particularly in the matter of finance, I am sure that we must tackle it, and we could make a start in the Bill I have in mind.

4. The third need is to secure better management of privately-owned rented houses. I want to encourage private owners to make more use of improvement and conversion grants. Ultimately we may have to force the pace by requiring modern conveniences to have been installed by a given date; but first we should see if we cannot get better results without resorting to compulsion of this kind.

5. I am circulating this paper to give the Cabinet a general view of the housing situation; to obtain their views on whether there should be a Housing Bill next Session; and to indicate what its form might be.

II.—Review of Present Position

(i) House-building

6. New house-building, private and public, is running at the rate of about 275,000 completions a year in England and Wales (300,000 in the whole of Great Britain). Of this 275,000, about 165,000 (60 per cent.) are likely to be completed this year by private enterprise, and 110,000 (40 per cent.) by public authorities, including new town corporations. This level of output is about equal to the number of completions in 1957; in other words, house-building as a whole has now just about recovered the ground lost as a result of the counter-inflationary measures taken in the autumn of that year. This recovery is, however, largely due to the continued growth of private building; building by public authorities is still about 10 per cent. below the programme they were working to in 1957, and below what they would like to do.

7. Virtually all private building is for owner-occupation; only a tiny fraction (chiefly expensive flats) is for letting. It is unevenly distributed over the country, being mainly concentrated in the south and east. In the north it tends to be very thinly spread.

8. Since 1956, when the subsidy for general needs housing was reduced (it was abolished in the following year except for one-bedroom dwellings), house-building in the public sector has been concentrated on those special purposes for which subsidies have continued to be available. These are slum clearance rehousing, old people's accommodation, building to house overspill and building to house incoming industrial workers.
9. Slum clearance has been the main effort of the local authorities. Over the past four years about 200,000 houses have been demolished or closed, and the families living in them rehoused. Clearance is now going ahead at the rate of about 60,000 houses a year (well over half of all local authority building is for slum clearance). But though good progress has been made, a very great deal remains to be done. At least a further 650,000 houses unfit for human habitation have still to be dealt with in England and Wales; and as time goes by and property gets older, the actual number may well prove to be much larger. Though about half the local authorities should complete their present clearance programmes by the end of 1962, the larger and more difficult part of the task will still be to come. The main concentrations of slums are in the older industrial towns of the Midlands and the north. In places such as Liverpool, Manchester, Oldham and Batley the proportion of slums is as high as 30 per cent. to 40 per cent. of all dwellings, while elsewhere a ratio of 20 per cent. is not uncommon. Though at the present rate of clearance the great majority of the 1,500 housing authorities should finish the job within the next 10 years, the 50 or so with the very big and difficult problems will need much longer. Some indeed will have to have a higher rate of financial assistance if they are to find their way through within the next 20 to 30 years.

10. Next to slum clearance, local authorities have concentrated on the provision of one-bedroom dwellings (flats, flatlets and bungalows) suitable for the elderly, childless couples and single people. They have now raised their building of these smaller units to about 25,000 a year. In an ageing population, in which there will also be an increasing number of separate households, we must plan to meet a large and growing demand for this kind of accommodation. A considerably increased proportion of the total house-building programme ought to be devoted to this purpose; and it will tend to release larger houses now under-occupied. Many of the old cannot, however, afford the economic rent of even the smallest dwelling, and that means subsidy.

11. Overspill building (in London new towns and in town development schemes) at present amounts to upwards of 10,000 houses a year. This is inadequate, because sheer shortage of house-room is now most acute in the big cities which are almost at an end of building land within their own boundaries and therefore are largely dependent on overspill building for relief. As building in the new towns is now running down, the position will worsen unless faster progress can be made with the expansion of small towns to take population (and employment) out from the big cities. It may also be necessary to start one or two more new towns, though not for London. Had we had a new town under construction for Liverpool, we could probably have got one of the new car factories to go there, with advantage to everyone.

12. Of the 110,000 houses likely to be completed in the public sector during 1960, some 95,000 (perhaps more) will be absorbed by building for the three subsidised purposes just described (slum clearance 60,000, one-bedroom dwellings 25,000, overspill building 10,000). The remaining 15,000 (perhaps less) will be mainly for "general needs"; a phrase which, at any rate in the big cities, means families in need of better accommodation because of gross overcrowding or urgent health reasons. This amount of "general needs" building to let is very small in relation to what is required if people are to get out of thoroughly unsatisfactory conditions relatively quickly. In recent housing debates our own back-benchers with knowledge of these cities have been calling on the Government for fresh initiatives to tackle overcrowding.

13. A number of local authorities would be building more for general needs, even without subsidy if they were allowed to. If I did not hold them back, the total public programme would probably be of the order of 120,000 houses a year, or 10,000 more than the current rate. This was the size of programme authorities were building to when the 1957 cut was made; this is the size of public programme we ought to aim at getting back to for the next two or three years, although after that it could be reduced as one authority after another completes its slum clearance.

14. Changes made last year in the grant system for the improvement and conversion of older houses have led to a marked increase in the amount of grant-aided improvement work. The rate is now above 100,000 a year (compared with
35,000 a year before the 1959 Act), and the trend is still upward. The great bulk of the applications for grant have however come from owner-occupiers; the response from landlords has so far been disappointingly small.

15. It is impossible to forecast whether the present upward trend will continue, or whether indeed the current rate of 100,000 will be maintained. So much depends upon the owners, with whom the initiative rests. Though the rate of progress to date has been encouraging, it is still small in relation to need. There are at least 2\(^{1/2}\) to 3 million sound houses in need of improvement (in the main by the provision of bathroom, indoor water closet, hot-water system and a proper food store). To make a sufficiently speedy impact on the problem, the rate of improvement ought to be raised to 200,000 or 250,000 a year. Even then, it would take 10 to 15 years to modernise all the houses worth modernising. If they are not modernised (and so given a new lease of life) within the next 10 years or so, large numbers of them will run down into slums. It is important therefore to encourage owners, particularly landlords, to make wider use of improvement grants —by removing deterrents and strengthening inducements wherever possible.

16. There are however many small landlords who may well be unable or unwilling to improve their properties, even with the aid of grant. We cannot therefore rely on the grant system alone to get improvements done to rented houses on an adequate scale. Methods of dealing with this problem are discussed in sections III and IV below.

(iii) How we stand

17. Since 1945 just over 3 million new dwellings have been provided in England and Wales (nearly 3\(^{1/2}\) millions in Great Britain). This is nearly equivalent to rehousing one family out of every four in the country.

18. As a result of this immense output, there is no longer a nation-wide shortage of housing accommodation. In many rural areas and small towns there is now no great problem; over a large part of the country the truly urgent needs have been met, or very nearly so. But elsewhere many families are still living in most unsatisfactory conditions with little hope of escape. There is bad overcrowding, mainly in the big cities, but to some extent also in the older industrial towns of the midlands and north, and indeed in some new and expanding industrial areas. It is in these places that the housing effort needs to be increased, if we are really to throw off the reproach of the "Two Nations".

19. In the big towns, a main cause of this unsatisfied demand is the shortage of land for building. Planning policies have rightly set a limit on outward growth; they insist on the preservation of a green belt around the built-up area, and the decentralisation of population and employment to smaller places some distance away.

20. Since 1951, no new towns have been started in England and Wales (as distinct from Scotland) for the relief of overcrowded and congested towns. Further "overspill" building has relied on local authority action, largely in the form of town development schemes based on agreement between the exporting and receiving authorities. For a number of reasons (planning, financial, administrative and political) progress has been very slow. The London County Council have made real efforts to get schemes going; they have succeeded in several places which are already producing homes and employment for Londoners, and they now have a good prospect of getting agreement on two or three major schemes in Hampshire. Elsewhere, with one or two exceptions, not much has yet been achieved; but local authorities in the counties have received one or two sharp shocks recently, in the shape of threats by the exporting authorities to break out for themselves (Birmingham's demand for 2,500 acres at Wythall, for instance), and I believe we shall be getting better progress now in some of the difficult areas. Manchester seems likely to reach agreement on building what will virtually be a new town at Westhoughton in Lancashire. I am trying to achieve agreement between Birmingham and the surrounding counties on two or three substantial schemes of town development. I hope to see Liverpool in an effort to make them accept the policy of decentralisation, in which Lancashire has always been prepared to co-operate. If I can slightly improve the rate of Government assistance for overspill, and be prepared, where there is a strong case, to start another Government new town, it would provide a fresh stimulus at a critical moment. We
might, within the next year, be able to find agreed and acceptable solutions for all the main overspill problems, which have caused so much trouble and heartburning since the war.

21. Overspill is however only one aspect of unsatisfied housing demand. More house-building is required in the difficult areas to meet all kinds of need. Slum clearance (with its heavy incidence in the older industrial towns) and housing for old people have already been mentioned. In addition, in a number of cities and large towns there are a great many families on the waiting lists still without a separate home of their own. Some double up with other members of the family, a potent cause of friction, especially when newly marrieds have to live with in-laws. Others have rooms in multi-occupied houses, a family on each floor with inadequate sanitary arrangements, and are often living under conditions worse than if they had a slum house to themselves. Then there are people who urgently need rehousing on health grounds, or because of some other disability. These are types of "general housing" need which cannot be met by private building (because the families cannot afford to buy), yet for which little is being done as yet by the local authorities because of the priority which existing subsidy arrangements give to slum clearance and other specified purposes. I want now a greater flexibility in the subsidy pattern so that authorities can build more freely according to their judgment of the urgency of the need to be met.

(iv) Subsidies

22. Existing arrangements provide for the payment of fixed annual amounts of Exchequer subsidy for certain specified purposes. These subsidies are payable at the same flat rate for 60 years to all housing authorities regardless of their local poverty or wealth.

23. The specified purposes and basic amounts of subsidy for the ordinary type of council dwelling are:

<table>
<thead>
<tr>
<th>Purpose</th>
<th>Amount per annum</th>
<th>(3s. 10d. per week)</th>
</tr>
</thead>
<tbody>
<tr>
<td>One-bedroom dwelling for general needs</td>
<td>£10</td>
<td></td>
</tr>
<tr>
<td>Slum clearance rehousing</td>
<td>£22 ls. 0d.</td>
<td>8s. 5d. per week</td>
</tr>
<tr>
<td>Overspill and industrial housing</td>
<td>£24</td>
<td>9s. 2d. per week</td>
</tr>
</tbody>
</table>

A further £8 per annum is added for overspill in the new towns; and, usually, in town development schemes (contributed in whole or in part by the exporting authorities) but in these cases it is provided only for the initial 10 years on the theory that, in time, the receiving authority should be able to manage with only the standard subsidy.

There is a discretionary power to enable these basic amounts (apart from overspill and industrial housing) to be increased up to a maximum of £30 a dwelling, if a local authority can show that unless given extra assistance they would have to charge unreasonably high rents or incur an unduly heavy rate burden. Few authorities have so far qualified for this additional help, though the number is increasing.

The key figure of £22 ls. 0d. was fixed when the cost of building was lower and when the rate of interest was 3½ per cent. To-day it is 5½ per cent.

24. Higher rates of subsidy for the same purposes are payable on a graduated scale where building takes the form of flats in high blocks (because these are more expensive to build); and there is also a special subsidy, again on a graduated scale, for expensive sites costing more than £4,000 an acre when developed.

25. In isolation, existing subsidies are inadequate to bridge the gap between the weekly cost of a new house and the amount of rent that many families in the lower income group can reasonably be expected to pay. The present average cost of a typical three-bedroom council house is about £1,800 (including land), and the economic rent at the current interest rate for local authorities works out at about 50s. a week net. To this has to be added 10s. to 15s. for rates, and so the inclusive weekly cost, assuming no subsidy, would amount to between £3 and £3 5s. 0d. a week. Subsidy at the slum clearance rate (for which the majority of council houses now being built qualify) would reduce this by 8s. 5d. a week,
making it £2 11s. 6d. to £2 16s. 6d. a week. Where the family income is below £14 a week, this is too high. (On the basis of figures derived from the Family Expenditure Survey in 1958, it is estimated that there are something over 6 million families in this income group.) Many could not afford to pay more than £2 to £2 10s. Od. a week inclusive (30s. to 35s. net rent), and others not as much.

26. However, the existing subsidies which are being paid out on current new building do not have to be looked at in isolation. Local authorities are also receiving a very large amount of subsidy on the 3 million houses they have previously built. These include about 1½ million houses built at cheap cost before 1939 which to-day, as a result of inflation, no longer need to be subsidised, though they will still attract subsidy till 60 years are up. The total subsidy bill on all existing local authority houses now amounts to about £59 millions per annum, of which £11 millions is in respect of pre-1939 houses. At the current rate of building in the public sector, the bill is increasing annually at the rate of £3 millions-£4 millions.

27. Local authorities as a whole have therefore large subsidy resources at their disposal to enable them to keep rents down for their poorer tenants, and also to carry on for a time with new building, despite the inadequacy of existing subsidies looked at in isolation. The great weakness of the present position is that the £59 millions a year subsidy now being paid out is distributed very unevenly between authorities (because of wide differences in the numbers of cheap pre-war houses they own, and of variations in the amount of subsidy paid during the post-war period) and that the amount each authority is already entitled to, or may get for new building under present arrangements, bears scant relationship either to its financial or to its housing need.

(v) Municipal Rents

28. Local authorities have in fact managed to carry on house-building since 1956 by pooling rents and, to a lesser extent, subsidies. This means that they have spread the cost of new building over all their houses, by gradually pushing up and evening out (as between their cheaper and more expensive houses) the level of rents charged. In addition some authorities, through the operation of differential rent schemes, have used the subsidies they receive as a pool out of which to abate the rents of their poorer tenants. Though the level of council rents in many areas is still low, the general level has been going up steadily over the past three years, roughly at the rate of 7½ per cent. per annum.

29. But the ability of authorities to finance further house-building in this way varies widely, because of differences in resources. Many of the big towns and cities still have a good deal of rent potential to draw on: they have large numbers of cheap pre-war houses, and their rents generally are still very low. On the other hand, many of the rural districts and smaller towns have in their pool of accommodation a high proportion of post-war and therefore expensive houses, and these authorities have already pushed up their rents a long way, in some cases to about as far as they can go in relation to current wage levels. For these authorities, mostly in country districts, additional house-building would mean imposing an increasing burden on the rates.

30. Furthermore, many of the bigger authorities which are Socialist-controlled pursue a low rent policy deliberately. They are unwilling to adopt differential rent or rent rebate schemes which take account of rent-paying capacity. They supplement the Exchequer subsidies by contributions from the rates (which they are no longer under any statutory obligation to make) in order to keep rents low all round. Yet many of their tenants could certainly afford to pay much higher rents, and in some cases the full economic unsubsidised rent.

31. In consequence, council house rents are often lower in terms of shillings per week in the towns than in the rural districts. In some of the big cities, they are absurdly low. The average rent (exclusive of rates) of a post-war three-bedroom house is about 16s. in Manchester, 16s. 3d. in Newcastle-upon-Tyne, 18s. 3d. in Liverpool, and 18s. 7d. in Hull. On the other hand, many rural councils are charging average net rents of between 25s. and 30s. a week for the same kind of accommodation, in spite of the relatively low level of earnings in rural areas.
32. Expressed in terms of gross value (G.V.) (the "gross value" of a house or flat broadly represents the rent, estimated at 1939 values, which it would have fetched in its 1956 condition), the contrast in average council rents between the big towns and the rural districts is even more marked. For rural districts, the average rent at March 1959 worked out at slightly above 2 G.V., and is the highest for all classes of local authorities; for county boroughs the average comes out at 1·6 G.V., and is the lowest. These figures compare significantly with the rent limit of 2 G.V. for privately-rented houses subject to control under the Rent Act.

III.—What Needs to be Done

33. The lessons to be drawn from this review are that to-day there is no longer a national housing problem, but a collection of local problems: these problems are serious in some parts of the country only: to play their part in meeting them, local authorities will still need to continue building a substantial number of houses: even where the problems are serious, there are big variations in the size and character of the needs to be met: there are also wide differences in the resources available to local authorities to meet them: some authorities are getting more help than they need: others are not getting enough. Policy should be reshaped so as to take account of these differences, with the aim of enabling housing effort to be applied from now on where it is most needed and on a sufficient scale. How can this be done?

34. As the first step, I put forward the following broad proposals:

(a) We should pay subsidies for new building only where there is financial need, and in those cases we should make it more adequate to the need.

This would mean withdrawing the present flat-rate system of subsidies and replacing it, for houses built to meet local demand, by a graduated system based on a test of the Council's financial need. This test would take cognisance both of rent income and of any surplus in the housing account arising from subsidies on existing houses. The assumption would be made that authorities should be receiving from existing houses a total rent income equivalent to 2 G.V., rebates where necessary being provided by charging higher rents to those able to pay more, supplemented as necessary by a contribution from the rates. The broad intention would be to vary the subsidy where the test showed that an authority possessed resources out of which it could bridge the gap between the cost and the rent of such new houses as it needed to build. Authorities with such resources would get less subsidy, or even none at all; those without resources would get more.

The special subsidies for flats and expensive sites would have to be retained.

The intention would be to fix a new standard subsidy payable to authorities satisfying the rent test, a subsidy that could be increased where needs were exceptionally heavy, and decreased where the authority had financial resources, potential or actual, in their housing account. To safeguard the Exchequer the aim would be to fix the new standard subsidy at a level which, allowing for the increases and decreases and all the special subsidies, would contain the annual addition to the Exchequer commitment within its existing limits. Further, I propose that the subsidy should not be promised over the whole 60-year period of the loan, as has been the practice in the past. If wages continue to increase, capacity to pay rent increases and the amount of annual subsidy required goes down. I would propose to take power to review the annual payment at fixed intervals, possibly by reference to the level of earnings.

Payment of subsidies on this basis would mean that some authorities which deliberately pursue low rent policies would for a time get much less new subsidy than at present, even though they still have large and urgent housing needs to meet in their areas. It would mean, over a period, increases in many municipal rents, increases which in some towns might amount ultimately to 20s. a week or more before the authority could qualify for full subsidy on new building (that is the measure of the inadequacy of their existing rents). The increases would take effect by
degrees. Examples are Manchester, Liverpool and Newcastle-upon-Tyne, where rents at present are far below the level which the tenants could reasonably be expected to pay. Many London County Council rents would also have to be increased. All these authorities would still be able to continue building if they would face the necessary rent increases. It would be a question of forcing them to do their duty, and there would be storms. The ratepayers generally of course would stand to gain rather than to lose by one section—the Council tenants—being required to pay sensible rents. The people on the waiting list would gain, because Council tenants no longer featherbedded by subsidies they did not require would in a good many cases start thinking of house purchase.

(b) We should pay subsidies for any purposes for which the local authority really need to build, e.g., slum clearance, general needs, relief of overcrowding, old people; and (apart from the subsidies for overspill building and for housing for incoming industrial workers) pay the same amount of subsidy per dwelling, as determined under (a), for all purposes, but weight it in favour of those authorities with a great deal of slum clearance still to do.

These arrangements would allow for the varying housing needs to be met by local authorities, and while giving them an incentive to push on with slum clearance as vigorously as they can, would leave them free to allocate their new building (without fear of loss of subsidy) to whatever needs seem to them to be most pressing.

(c) We should enable housing associations to obtain subsidy direct from the Exchequer for building for old people, or for any other approved purpose which would entail letting below economic rents. The amount of subsidy would be the standard amount referred to in (a) above.

At present, a housing association can only get subsidy through the local authority, and then only where it enters into approved arrangements with the authority for the carrying out of a particular scheme. This is unsatisfactory because it puts the local authority in the position of being able to frustrate building by a housing association, by refusing to collaborate or by insisting that any houses built by an association must be let to tenants on the Council’s waiting list. Removal of this limitation would give freedom of initiative to housing associations and stimulate some of them to fresh activity: a very desirable development.

(d) We should tackle the problem of overspill building more vigorously and give it a new impetus—by doing two things.

The first is to improve the subsidy available to local authorities when building for overspill purposes under town development schemes. Town development, like new town building, has to be self-supporting, allowing only for the Exchequer contribution and for such additional assistance as the exporting authority can be induced to give. The authority that agrees to receive population from a distance cannot be expected to contribute to the house-building cost out of the rates, or out of the rents of its existing tenants. This form of public housing has therefore been hit worse by the rising rate of interest than any other. Even where the all-in contribution is £32 per annum (12s. 3d. a week) it is not enough to bridge the gap between cost (50s. net rent for a three-bedroom house) and the net rents that can be paid (on average 30s. to 35s. a week). The contribution needs to be somewhat increased, to £38 or £40; and the receiving authorities need to be assured of continued additional help beyond the first 10 years if need can then be shown.

Secondly, we should be prepared, if need is proved, to initiate the building of one or two more new towns. I have mentioned the efforts I am making to improve the at present almost non-existent rate of decentralisation from Birmingham and Liverpool. If it proves, as it may, that for either or both of these places action on a new town scale is part of the appropriate solution, I am certain that we ought to be
willing to build those towns ourselves. In recent years we have taken
the line that if Birmingham or Liverpool or any other powerful
authority need a new town to relieve their congestion, they should
build it themselves; but it would be very difficult now for them to raise
the necessary capital, quite apart from which there is no doubt that
building by a Government agency is very much more acceptable to the
people in the county concerned than building by one of these great
municipalities.

I should of course seek to agree any specific proposal for the siting
of a new town, or of any town expansion, with those of my
colleagues principally concerned.

(c) We should encourage the improvement and conversion of older houses by
making the return to owners on their expenditure more attractive.

At present an owner carrying out improvements or conversions
with the aid of grant is limited in the rent he may charge after
improvement. In the case of improvement of a single-family dwelling
(as opposed to conversion into two or more units) the rent increase
may not be more than 8 per cent. of the owner's share of the expenditure
on the improvement works. This percentage addition offers no
worthwhile return to the owner, and needs to be increased to something
like 12 per cent, to provide an incentive. Some comparable easement
is also needed (though the form would have to be different) in order to
encourage more conversion work.

Reaction of the Local Authorities

35. If these proposals are agreed in broad outline, I would propose to settle
details with the Chancellor of the Exchequer and then discuss them in confidence
with the representatives of the local authorities. As the great municipalities will be
the main losers, I must expect opposition from their representatives. But I would
find support from other quarters; the scheme would be attractive to authorities
already charging adequate rents and with heavy tasks still ahead.

IV.—Rented Houses

36. There are two great gaps in the existing housing situation which the
proposals I have made in section III above will do nothing to remedy. One is
that since the war private enterprise has done almost no building to let. Anyone
wanting a house nowadays has virtually only two choices: to buy or to become
a council tenant. Opportunities of renting privately-owned houses are still very
few.

37. The other gap is that the present private owners of rented houses are, in
many cases, deficient as landlords. They are not modernising the houses; they
are not even maintaining them properly. For small owners—and there are many
of them—this can be very difficult; often they lack the resources or the competence
to do the job properly. Often, too, they are simply rent-drawers; they do not
understand the importance of good management if their property is to retain its
value. Furthermore, after years of rent control the one aim of many landlords
quite naturally is to get rid of their property, rather than to spend any more money
on it.

38. This weakness in landlordism makes us very vulnerable. The Socialists'
remedy for it is municipalisation. We reject that—but we have yet to find a
positive solution of our own.

39. I have been considering what might be done to deal with these problems,
and confidential talks have been held with representatives of the builders and
building societies. As a result it seems clear that though a few builders would
be interested in building to let (a very few are already doing some), this will not
amount to much. Finance is the big difficulty. Few builders have resources to
enable them to tie up capital over a long period, even to the extent of putting in
a 10 per cent stake. In any event they would need to obtain up to 90 per cent, of
the cost on mortgage, and on terms which would avoid the necessity of the builder
having to feed in further capital during the repayment period. This means that
loans on mortgage would need to be spread over at least 30 years, which is longer
than building societies are ordinarily prepared to consider—quite apart from the

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fact that their main interest is in lending for owner-occupation. One or two building societies might be induced to make finance available for rented housing here and there; and it is possible that capital might be obtained from insurance and investment companies. But they would in general look for a higher return than rented housing can provide. It seems therefore that we cannot at present hope for much from private sources.

40. Apart from straight building to let, a few builders are interested in the possibility of building for co-operative housing groups, as is now widely done in the Scandinavian countries. The attraction of this method is that the occupants, organised in an estate society, themselves provide the equity capital by taking up shares and are the collective owners of the property with full responsibility for mortgage repayments, maintenance and management. This is a form of self-help which I think is well worth encouraging. The co-operating and collective owner-occupiers could not at present, however, get any tax relief on their interest payments, as individual owner-occupiers buying on mortgage can do; and this I propose to discuss with the Chancellor.

41. I have also looked into the possibility of promoting housing trusts or associations (a) to build to let at economic rents, and (b) to purchase, repair and improve houses which landlords cannot look after properly. My first idea was that the building societies might be willing to support bodies of this kind and to put up the bulk of the finance. I had hoped too that they (and the builders) might be actively associated with the formation of such bodies. But this has led nowhere. The building societies are just not interested in this sort of housing activity and I can see no prospect of help coming from them, except perhaps for one or two experimental schemes. The builders simply take the view that they do not want any other agency encouraged to build to let.

42. In this situation the only way I can see of making progress would be for the Government to be prepared to lend money, at current rates of interest, to approved housing trusts or associations willing to build to let without subsidy and on a non-profit-making basis. This might be done through a Housing Corporation. Alternatively, some form of guarantee scheme might be worked out under which the Exchequer would underwrite borrowing by such trusts in the market. Either way, it would be necessary for the trusts to borrow the bulk of their capital long-term, i.e., up to 60 years, in order to make it possible for rents to be kept to a level which tenants can pay. If housing trusts or associations could be got going in this way, in addition to building to let they could be enabled in due course to purchase, improve and manage existing houses. They could become a non-municipal means of replacing the private landlord who is unable or unwilling to look after his property properly, and thus provide us with an alternative to the drift towards municipalisation. A proposal of this kind, coupled with those set out in section III, would enable the Government to present to the country a comprehensive housing policy.

43. I understand that the Chancellor may be opposed to this idea of stimulating building to let, for two main reasons: first, on the view that as many houses are being built as the economy can stand; and second, because the lending of money for rented housing at the Exchequer (or Public Works Loan Board) lending rate can be regarded as a form of concealed subsidy (since for this purpose, with its attendant risks, the market would look for a substantially higher rate). Though the housing trusts would be expected to meet the full cost to the Exchequer, they might fail to do so, especially if there were a depression. There is also the point that lending for this purpose would increase the Exchequer’s below-the-line commitments.

44. I can well understand that there may be anxiety about adding to the volume of housing investment, and that it may look to be too soon to be pushing building to let at a time when building for sale is running stronger than ever. But as against this, it will at best be a slow business getting housing trusts on to their feet, and I would in any event propose to start on a small scale and to count any houses built in this way against the public programme. Thus there would, for the time being, be no question of adding to the total number of houses that would be built anyhow.

45. As to the possible objection that an arrangement on these lines would involve a concealed subsidy, I of course agree that houses built or bought to rent offer a less reliable investment than houses built or bought for owner-occupation.
There would certainly be an element of risk in trying to encourage building to let at economic rents at the present time. Most private rents are still controlled, and guaranteed by our election pledge against any increase during the present Parliament. In these circumstances the scope for letting at economic rents is, at best, limited. But the builders I have consulted believe that there is a demand which would make itself felt once it was known that someone would build houses to let, and that the Government wanted to see this done.

46. It is in my view tremendously important politically to break the present monopoly of local authorities in building to let. Private enterprise is not going to break it; its market is in building to sell. But housing trusts, working on a non-profit making basis, and given access to the necessary finance for repayment over 60 years, could provide houses at net rents of between £3 and £4 a week. They could thus cater for the many families in the middle income group who do not wish or cannot afford to buy and would otherwise have no option but to look to the local authorities. It would be worth while in my view to take power to lend money to approved trusts if only to get them building (and also converting and improving) for the elderly and other classes specially in need of help. But I believe that quite apart from this it is important to demonstrate that our party recognises the general need for some new rented housing and for good management, and has an alternative to municipalisation—an alternative which might contain the seeds of a great new housing movement. If we were to launch it now, we would I believe make some progress in expanding the housing association movement before the next election, and I think that that could be important too.

47. In any event I want to get housing trusts going in some of the new towns, to provide for the continued building of rented houses after the Development Corporations have completed the main task of bringing people into the towns. Somebody has got to continue house-building in these towns, although on a reduced scale; and while private enterprise is showing an increasing willingness to build in them for owner-occupation (and I am anxious to encourage this, within limits) it does not meet the main continuing need, which is to provide houses at moderate rents for those who work in the towns. I do not want the local authorities to have to carry out all the future building of rented houses in these towns (for which incidentally they would certainly expect Exchequer assistance, as they have few older houses over which to spread their costs), nor do I want the central Commission which is to succeed the Corporations to be a major house-building authority in a dozen towns. The chairmen of the Development Corporations, whom I have consulted, believe that there is scope in the towns for better-class housing at or near to economic rents, and I think it would be appropriate that the Corporations should establish Housing Trusts to undertake this, financing them through the New Towns Account. I hope to reach agreement with the Chancellor on this.

Summary

48. Housing policy needs to be developed further for three main purposes:
(a) To secure a better and more rational use of subsidy.
(b) To make a start on building to let at unsubsidised rents.
(c) To encourage the better management and maintenance of privately rented accommodation.

49. I seek:
(a) Approval in principle to the broad proposals outlined in section III above for dealing with subsidy, the details to be worked out in agreement with the Chancellor, with a view to introduction of a Bill next Session.
(b) The views of the Cabinet on whether an attempt should be made by the loan of Exchequer money to get housing trusts established to build to let, and when opportunity offers to purchase and improve and manage privately rented houses; and, if so, whether the necessary provision should be made in the same Bill.

H. B.