

Housing

National report

June 2005

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# Financing council housing

A report on the impact of the national system of finance on the government's objectives for council housing

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# Summary

Twelve per cent of households in England live in council properties and it is a government priority to ensure that these tenants all enjoy good-quality housing. But not enough has been spent to maintain the quality of the housing stock at a steady state. In 2000, the government estimated the cost of the repairs and maintenance backlog at £19 billion.

Governments have changed the housing finance system (both revenue and capital) that underpins council housing several times over the last two decades. This report looks at how the changes affect council housing services and rent levels. It describes how we expect the changes to affect councils as they strive to meet the government's objectives for council housing.

In reaching our conclusions this study tests the national finance system against six principles, which the Commission believes are vital to the effective and efficient provision of council housing.

## Key findings – the six principles

### **1. Provide local accountability for council housing management, investment and stock condition.**

Few people understand the system for financing council housing. Tenants expect to hold their local landlords to account for key decisions affecting rent levels and expenditure on services, but in reality these are now more influenced by national and regional policies than by local ones. 'Council' housing might more accurately be labelled 'national' housing.

Nationally, council housing will receive more funding over the next few years, as rents converge with those in the housing association sector, but the additional rent income raised from tenants will continue to cover expenditure on services on a national rather than local basis. The national council housing subsidy system will continue to redistribute revenue between councils according to estimated spending needs.

These rent increases will impact on the landlord-tenant relationship by weakening rather than improving local accountability to tenants.

## **2. Encourage and reward high performance, minimising perverse incentives.**

The system recognises cost efficiency but does not specifically encourage or reward high performance. The way that the system provides ongoing support for outstanding debt could well be seen as perverse. The absence of performance requirements fails to support other government initiatives, which have successfully sought to promote better management of local authority housing through the application of a range of performance management approaches.

## **3. Provide a customer-focused approach to the provision of housing and housing services in a local market setting.**

The introduction of business planning and the requirement to secure continuous improvement in services for customers have had a positive impact on services. However, the failure of the system to recognise the different market situations faced by local authorities is a weakness, as is the absence of actual stock condition as a central consideration.

## **4. Establish an equitable relationship in each locality between charges, service standards and investment in council housing and neighbourhoods.**

Tenants are unlikely to see a clear relationship between the rents they are charged and the services they receive. For example, council tenants in the eastern region on average are currently paying £14 per week through their rents to support housing costs elsewhere, while those in London are receiving a £15 per week subsidy from tenants in other parts of the country.

In addition, it is apparent that some of the things most desired by tenants, such as spending on external common areas to design out crime, are not covered by the Decent Homes Standard and hence not provided for within the national funding system, which focuses on property-related costs. Other programmes and initiatives will support some of these aspirations at a point in time and in some localities, but not on an ongoing or consistent basis.

### **5. Promote self-sufficiency for each council, while allowing councils to respond flexibly to the circumstances of the local market, providing stability and predictability in their relationships with their tenants.**

Eighty-two per cent of housing authorities, managing 63 per cent of council housing stock, do not receive subsidy but have to make contributions to the national system out of their rent income. This negative housing subsidy amounts to £630 million per annum. Meanwhile, the asset base is diminishing through sales and stock transfers. So ultimately, this contribution will need to be met by other means.

The government assumes that achievement of the Decent Homes Standard will be funded from capital expenditure rather than revenue. But there is no ongoing public policy link between recommendations for capital allocations by regional housing boards and the state of local authority housing stock. So at present, although most authorities are working towards and some have already found, a route to achieving the standard, several authorities seem destined to miss the Decent Homes target, despite the extra resources made available within the system.

### **6. Support the government's objectives for council housing.**

The revised system of housing rents and subsidy aims to be fairer because it takes account of local incomes, costs and property characteristics. But it does not fully reflect historic investment decisions and the current state of housing stock. And while housing rents are rising in real terms in all areas, in most areas this will not result in extra spending on services.

The reforms also aim to ensure achievement of the Decent Homes Standard. But the subsidy being received from tenants elsewhere may not be sufficient to fund the necessary investment and service needs of a number of urban areas and a substantial repairs and maintenance backlog persists. This problem is particularly acute in London and can only be solved by substantial capital investment.

## **Recommendations**

The Commission makes two key recommendations:

- 1 The government should review the council housing subsidy system.
- 2 The government should consider that the local Housing Revenue Account (HRA) could reflect broader landlord costs.

The recommendations in full can be found on page 55.

# 1

## Local challenges for council housing

### Background

- 1 The last two decades have seen a steady increase in the diversity of provision of both social housing and owner occupation, with a corresponding decline in the role of traditional council housing. Despite this, council housing remains an essential and valued service for around 12 per cent of English households and will continue to play an important role in the future. In financial terms, council housing provision is small relative to the size of the UK housing market as a whole. Under-investment in council homes over recent decades is reflected in both the number of properties and their condition. The stark contrast between the amount of money invested in council housing and the amount invested in the owner-occupied sector can be illustrated by the amount of outstanding debt, which is about £16 billion for council housing and £800 billion for private dwellings (**Ref. 1**).
- 2 Poor stock condition has been a continuing problem in council housing for many years and the Decent Homes Standard confronts this issue directly. The government estimated the repair backlog to be £19 billion in 2000 (**Ref. 2**) and its target is that all council housing should meet the Decent Homes Standard by 2010. Changes to the housing finance system have provided part of the solution, making council housing more businesslike, with higher rents and higher spending on repairs and other services<sup>I</sup>. But the Decent Homes Standard is still a substantial challenge because the total investment needs for catch-up repairs and modernisation are so high compared with the available resources.
- 3 The government has, in conjunction with local authorities, for several decades taken the view that council house rents should be less than the private market rental charge. This policy of not charging the full economic cost of the council housing stock still prevails. A move to economic rents would give rise to significant increases in many localities and would generate concerns around affordability. This combination of low rent and high repairs cost means that the national council housing stock would only just break even if it were sold as a going concern at tenanted market value (TMV) through large-scale stock transfer (known as large-scale voluntary transfer – LSVT)<sup>II</sup>. Clearly the open market value would be much higher, but this value could not be realised in practice because the properties are tenanted.

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<sup>I</sup> Above inflation national increases of 6 per cent on management and maintenance allowances in respect of 2004/05 and 2005/06.

<sup>II</sup> Audit Commission desktop modelling estimates TMV of entire council stock is approx. £1,000 per property. In 2001 stock transfers, TMVs varied from £3,600 to £13,700 per property. The overall average was £4,500 per property.

- 4 Although the government's reforms have made council housing more viable in a commercial sense, there is a very mixed picture at a local level because of the uneven distribution of income and expenditure needs. One extreme includes some inner-city estates with major problems of disrepair and multiple deprivation, while the other includes typically suburban and rural council estates, which contain reasonably well-maintained houses with relatively high rents. Imposing a single standard for all social housing inevitably presents a challenge at the local level. The task is much harder for some than others and councils may have different views about the best way to use resources to improve the quality of life for tenants and other local people.
- 5 The government's approach attempts to place tenants at the heart of decision-making regarding their homes (**Ref. 3**), so it is important that the implications of these choices are understood. Most people appreciate the potential impact that resources have on services, but relatively few people understand how resources are raised and distributed for council housing.
- 6 Councils collect income from tenants through direct payments of rent and also through the receipt of housing benefit for those tenants on low incomes,<sup>1</sup> and maintain local housing revenue accounts (HRAs). However, a substantial proportion of the resources available for local housing services is determined by central government, according to its estimate of councils' locally raised income and local expenditure needs.
- 7 This report attempts to set both recent and planned developments in the context of the housing finance policy over the last two decades. It describes how we expect the more substantial changes in finance policy to affect councils and the nature of the challenges facing councils as they strive to meet the government's objectives for council housing. Based on legislation and various government housing policy statements, the Commission understands these objectives to include the following points:
  - council housing and other social housing, should be available to meet the housing needs of those households that are unable to access the private housing market;
  - all council housing must meet the Decent Homes Standard by 2010;

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<sup>1</sup> 60.7 per cent of council tenants were in receipt of housing benefit in 2003/04, see Appendix 2.

- council house rents must be affordable, in terms of their relationship to local wages and must comply with the national rent-setting regime;
- services provided must be of a high quality; and
- there should be a high degree of local self-determination, with significant tenant involvement.

8 This report aims to improve understanding of the national housing finance system among local authorities and local stakeholders, including tenant representatives. It considers issues faced by local service providers that arise from the national system of council housing finance. In coming to our conclusions this study tests the national system against the following six principles, which we believe are important considerations in the effective and efficient provision of council housing.

The national council housing finance system should:

- provide local accountability for council housing management, investment and stock condition;
- encourage and reward high performance, minimising perverse incentives;
- provide a customer-focused approach to the provision of housing and housing services in a local market setting;
- establish in each locality an equitable relationship between charges, service standards and investment in council housing and neighbourhoods;
- promote self-sufficiency for each council, while allowing councils to respond flexibly to the circumstances of the local market, providing stability and predictability in their relationships with their tenants; and
- support the government's objectives for council housing.

9 The report is based on inspection or assessment work carried out at all stock-holding councils as part of comprehensive performance assessment (CPA),<sup>1</sup> the progress towards the completion of option appraisals by local authorities and other supporting data. This evidence has been supplemented by fieldwork and interviews with housing and finance officers in 18 local authorities, plus a desktop financial modelling exercise. The

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<sup>1</sup> CPA is the comprehensive performance assessment of each local authority in England conducted by the Audit Commission.

fieldwork sample was designed to ensure representation from councils with different economic circumstances and a geographical spread of councils in each of the English regions. The financial model has been constructed by utilising published housing statistics. It has been used to forecast the likely changes in resource allocation to local authorities over the next few years.

## The future of council housing

### The policy framework

- 10 Although the amount of council housing is expected to continue to fall, its condition and the quality of services should continue to generally improve, as a result of recent government policies. For example, many councils with high-performing housing services are establishing arm's length management organisations (ALMOs) to achieve decent homes. Other councils, including some of the poorer performers, may opt out of council ownership by transferring stock. Although services may improve, the remaining tenants are likely to be more vulnerable,<sup>I</sup> with greater support needs and increased levels of management input. It remains to be seen whether council services will be able to adapt successfully to these challenging demands, or whether the sector as a whole will require a fundamental re-think.
- 11 The long-term future of council housing is uncertain because councils are required to consider alternative stock options to meet the Decent Homes Standard, while Right to Buy (RTB) sales are depleting the remaining stock. The annual number of RTB sales has fluctuated according to the strength of the housing market as a whole, which varies in different parts of the country. Council properties continue to sell in spite of the erosion of the value of the discount and the gradual deterioration in attractiveness of remaining council properties. The government's national five-year plan for housing, *Homes for All*, introduces the prospect of incremental shared ownership, which it terms 'homebuy'.<sup>II</sup> At this stage this would be introduced on a voluntary basis as legislation would need to be enacted to make it a mandatory scheme. This new initiative could potentially lead to an

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I Council housing increasingly caters for the more vulnerable members of society as the proportion of the population who are owner-occupiers has increased.

II The government's report, *Homes for All*, (Ref 4) included initial proposals to extend home ownership for council tenants through the introduction of shared ownership, initially on a voluntary basis, by local authorities and housing associations.

acceleration of council house sales. Despite the long-term decline in numbers, we estimate there will still be a substantial stock of around 1.5 million council houses in 2010, the government's target date for 100 per cent decent social housing.

## Addressing the problem of poor stock condition

- 12 In the early 1980s, widely recognised problems were associated with council housing. These problems included poor planning of estates and facilities, untried construction methods, poor stock condition, ineffective management and increasing social deprivation. Successive governments sought to address the real and perceived problems in different ways, although the need to improve stock condition has remained a continuing theme. Of the different policy initiatives introduced since the early 1980s, the decent homes target of the current government is arguably the most wide-ranging, providing minimum requirements for the condition of both the structural elements of buildings and interior fittings of all social housing. Some examples of previous policy initiatives that have contributed directly or indirectly towards the effort of improving stock condition more generally are shown below, grouped under summary headings:

### Ways to raise financial resources

- increasing the amount of rent paid by social housing tenants;
- using capital receipts from RTB sales to set aside against housing debt, reducing debt financing costs; and
- raising private finance through stock transfer or, more recently, the Private Finance Initiative (PFI).

### Directing effort towards national priorities

- ringfencing funding for major repairs through the Major Repairs Allowance (MRA);
- compulsory stock options appraisals involving tenants in order to meet the Decent Homes Standard; and
- distribution of resources linked with government policy.

### Improving methods of service delivery

- procurement methods such as compulsory competitive tendering, or more recently, partnering;

- the best value regime, including CPA and housing inspection;
- arm's length management; and
- the efficiency agenda.

**13** This report specifically focuses on the first two of the above categories, looking at how the system (a) raises resources and (b) distributes them between councils and at how these relate to the six principles identified by the Commission. The national council housing finance system should:

- provide local accountability for council housing management, investment and stock condition;
- encourage and reward high performance, minimising perverse incentives;
- provide a customer-focused approach to the provision of housing and housing services in a local market setting;
- establish an equitable relationship in each locality between charges, service standards and investment in council housing and neighbourhoods;
- promote self-sufficiency for each council, while allowing councils to respond flexibly to the circumstances of the local market, providing stability and predictability in their relationships with their tenants; and
- support the government's objectives for council housing.

**14** The distribution of resources is a powerful influence on local authorities that cuts across the above categories because resources are tied in with other policies. For example, specific additional public resources for council housing are made available to qualifying ALMOs, but not for council housing that is directly managed by councils.

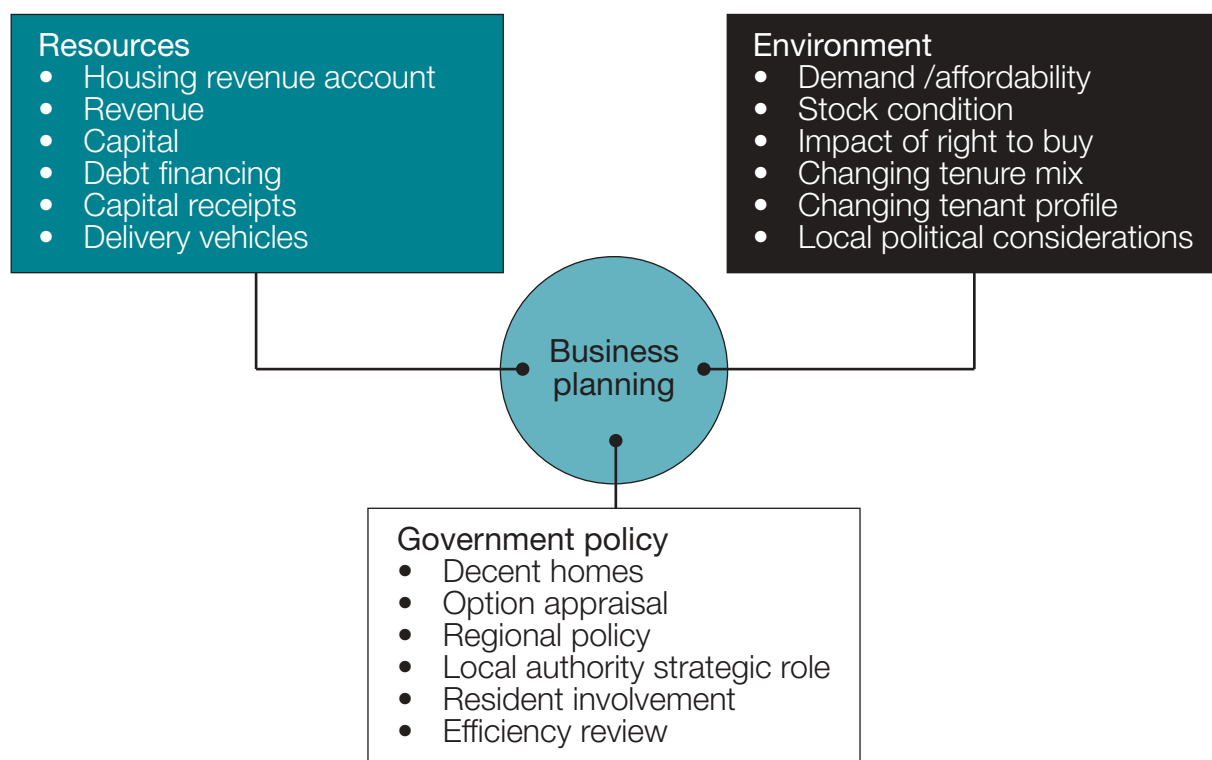
### **Business planning, stock options and strategy**

**15** The government's approach to strategic management of local councils places a requirement on them to develop business plans to determine how they will manage and maintain their homes over the long term, normally 30 years. Councils are required to undertake formal option appraisals in consultation with tenants, to identify the stock ownership and management option(s) that best suits their needs. Councils are required to have local stock options appraisals completed and 'signed-off' by the regional government office by July 2005. Councils are also required to have a 'fit-for-purpose' housing strategy,

again assessed by the government office. Councils report that different regions see the relationship between business plans and housing strategies differently, but it is generally recognised that the two go together: a fit-for-purpose strategy is consistent with a viable business plan. This strategic management approach encourages councils to support both statutory and non-statutory priorities of government at the central and regional level.

- 16 The increasing emphasis on regional strategy has introduced an element of uncertainty into the system in respect of local authorities achieving decent homes.
- There is uncertainty over the process of strategy assessment. The shift to a one-off, point in time, assessment of the fitness for purpose of councils' strategies raises questions about the future strategic housing role of local authorities.
  - It remains unclear what mechanisms will be used by government to ensure that councils' housing strategies continue to adapt to the evolving local, regional and national agenda and what incentives exist for councils to improve their performance in relation to the development and delivery of their housing strategy.
  - The links between policy decisions and available resources are not transparent – these can involve a regional housing board, its regional strategy, a local authority and its local housing strategy (now required as a statutory document – Local Government Act 2003 (Ref. 5)).
- 17 In response, councils have generally welcomed business planning. The councils we contacted during the research see it as a more systematic approach to managing and deciding the future of the housing stock. There is a widespread view, however, that the 30-year timescale of business plans is not realistic and most councils only have confidence in a three- to five-year planning horizon. Although most of the councils we contacted did not foresee difficulty with the 2005 deadline for deciding on the options for the future of their stock, other information collected by the Commission indicates that some authorities have made relatively little progress to date in deciding which option to pursue. Councils that are relying on stock retention face uncertainty about the level of capital resources that will be determined by regional bodies in the medium term. This issue is covered later in the report.

**Figure 1**  
**Influences on local business planning**



*Source: Audit Commission*

- 18** A central feature of business planning is the requirement to meet the Decent Homes Standard by 2010. The imposition of a minimum standard provides an impetus for councils to take difficult decisions, which they might otherwise have avoided. It should bring about a substantial improvement in the quality of council housing, while reducing variations in quality across different parts of the country. However, many councils are critical of the nature of the Decent Homes Standard approach and report that it is not always the most important issue for tenants, who may have other concerns.
- 19** The allocation of capital resources is controlled by central government, based on recommendations made by regional housing boards. Regional housing boards must balance the competing demands of providing more affordable housing and making the existing social housing stock decent. Their first year's allocations produced a general

trend of councils' allocations increasing in the north of England and decreasing in the south – where improving the affordability of housing through additional provision is generally a higher priority. The total amount allocated to councils has decreased by around 10 per cent compared with the average of the previous three years. For many councils, capital allocations through the regional housing boards are an important factor in determining the viability of the stock retention option. But the mechanism for distributing capital resources lacks transparency.

### Alternative options for housing ownership and management

- 20 The government's overarching strategy for improving public services links additional resources with reforms of service delivery arrangements. Additional investment over and above mainstream funding depends on new ownership, management or governance arrangements. The options are ALMO, PFI and stock transfer (LSVT), each of which offers a different set of finance and governance arrangements (**Figure 2, overleaf**). This menu approach to meeting the Decent Homes Standard is intended to address the varying circumstances faced by local authorities and a council's chosen option is likely to be a compromise between competing objectives. For example, tenants might prefer the continuity of the stock-retention option but with the investment opportunities of stock transfer. Clearly, they cannot have both.
- 21 This report deals mainly with the national-level implications of the stock retention option. It also touches briefly on the alternatives for local authorities. Some might consider stock retention as a 'do-nothing' option, but in fact all the alternative options involve new opportunities and challenges, including stock retention. Regardless of the method used to raise the money, the cost will ultimately have to be paid by rent payers or taxpayers and all options are intended to deliver improved value for money for residents and taxpayers.

**Figure 2**  
**Different features of the four main stock options**

Stock retention	Arm's length management	Stock transfer	PFI in HRA housing
housing remains in council ownership, managed by council officers	housing remains in council ownership, managed by a specially formed company	housing purchased by a 'not for profit' housing association	housing remains in council ownership, new assets managed by contractors
housing services governed and overseen by elected councillors	board of directors comprised of council nominees, tenants and independent members	board of directors comprising of council nominees, tenants and independent members	housing services governed and overseen by elected councillors
councils can borrow capital from government through the Public Works Loan Board / the markets	borrowing for ALMOs' capital programmes is managed by the council that owns the ALMO, as in stock retention	new capital investment is borrowed from lending institutions, secured against the rental income stream and the value of the property underwritten	new capital investment borrowed by private contractor, financed by PFI credits, supplied by government
maximum amount borrowed determined by regional housing board, subject to approval by Secretary of State additional prudential borrowing may be possible for some councils	maximum amount borrowed same as stock retention plus an additional amount determined by government, based on investment needs for decent homes	maximum amount borrowed depends on the value of the housing stock and the value of the rental income stream	amount borrowed depends on the size of the contract
tenants should be consulted on alternative stock options, but no formal ballot required for stock retention	must be approved by government and satisfy the 2-star rating from the Housing Inspectorate – tenants must be consulted but no ballot required	transfer must be approved by government and satisfy the requirements of the Housing Corporation and must be approved by a majority of existing tenants voting in a formal ballot	must satisfy EU procurement rules and be approved by government. Tenants should be consulted on how homes are managed, but no formal ballot required

*Source: Audit Commission*

## Funding for wider regeneration, beyond the Decent Homes Standard

- 22** It is increasingly recognised that decent homes investment needs to be seen as part of a wider programme of improvements to properties and their surroundings. The investment needs in a locality will often include some works that are not specified in the Decent Homes Standard. The extent to which decent homes programmes should cover activities that would normally be described as regeneration and how much of it should be funded by housing, is a judgement for government and councils. For example, ALMO funding allows up to 5 per cent of the capital funding to cover wider regeneration, which is not included in the Decent Homes Standard. However, decent neighbourhoods are clearly a pre-requisite for businesses that require long-term demand for their products and services and they are a fundamental requirement for sustainable communities. The councils we contacted as part of our research all identified priorities beyond the basic Decent Homes Standard, such as:
- tackling the growth in drug use and drug-related crime;
  - improving the quality of the environment;
  - sustaining rural communities in isolated areas; and
  - making estates safer and more attractive to tenants in order to maintain demand and sustain the financial viability of the housing management organisation.
- 23** A number of other programmes, supported by government, can help local authorities to tackle some of these concerns. However, these tend to be relatively short-term programmes without the resources or sustained commitment necessary to resolve the severe problems that many areas face.
- 24** In some cases, additional investment could be justified from a purely business perspective. For example, investment that makes estates more attractive to tenants might offer a positive return by increasing the occupancy rate of housing. In many cases, the most acute problems are concentrated in particular areas and councils may be able to reduce the investment needs for the bulk of their housing by considering alternative options for expensive pockets of stock.

- 25 Authorities in the market renewal (MR) pathfinder areas expect MR funding to have some impact on HRA housing, as well as other housing in their areas. Some of the pathfinders plan to use MR funding to demolish and reconfigure stock and to improve the environment on estates. This will allow more of the mainstream funding to be spent on decent homes than would otherwise be the case and should also increase revenues and capital receipts from RTB sales if estates become more popular.

## Summary

- 26 The provision of affordable housing, in part through the actions of local authorities, is an important element of the government's overall approach to housing policy. The additional resources, the introduction of business planning, the specific target for Decent Homes, the creation of ALMOs and the enhancing of performance have all had a positive impact.
- 27 The lack of a clear connection between national, regional and local plans and priorities and the relationship between policies and resources, are considered in more detail in the next chapter.

# 2

## Resources for stock-retaining councils: the national funding system

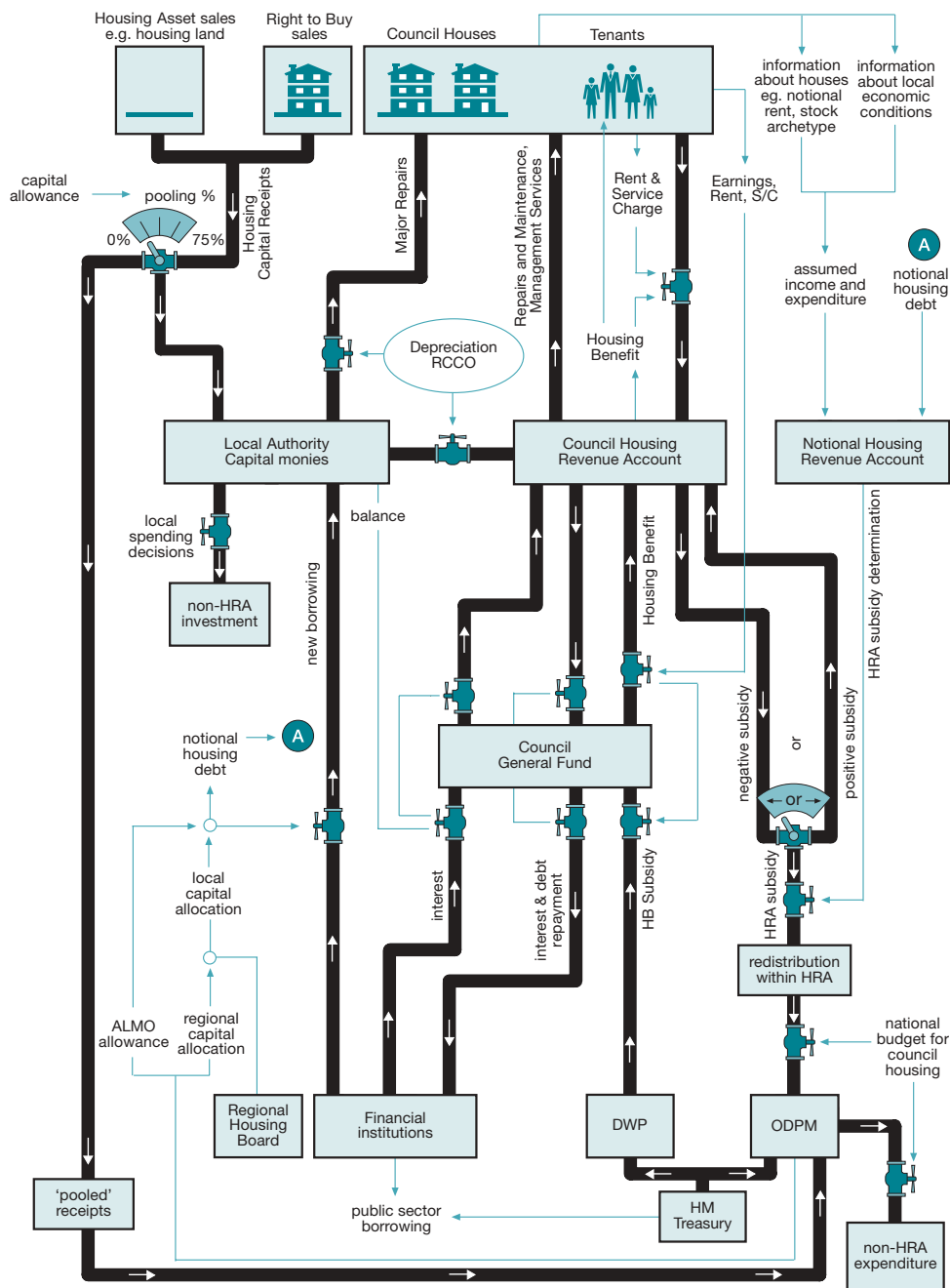
### Introduction

- 28 The chapter explains how the system of finance for council housing works. **Figure 3, overleaf**, shows the finance system that applies to a council, illustrated as a system of pipes and valves, which control the flow of money. The government's housing finance policy is represented by the various pipe connections and by the rules that govern the opening and closing of the valves. The illustration is a gross over-simplification of the real world. For example, the diagram does not show the other councils that are all connected through the national HRA; neither does it adequately represent the complexity of the annual calculations and decision-making processes that determine the flows of money – illustrated by the opening of each of the valves. Nevertheless, the diagram graphically demonstrates the barriers to understanding how the system works.

### Revenue finance – the 'real' housing revenue account

- 29 Every council that owns and manages housing is required to maintain an HRA, which is an account of council housing income and expenditure. This account is 'ringfenced' (that is, separate) from the council's general fund revenue account and the ringfence is defined by a complex set of rules that govern the operation of the account. Its most obvious effect is to prevent councils using income that is raised locally from taxation to subsidise council housing services (and vice versa). Before the introduction of the ringfence, councils could raise money from local taxpayers to finance the building of new council housing, or to reduce council rents, or both. Alternatively, they could make a profit on their council housing to subsidise local levels of taxation. Under the present rules, central government maintains overall control over local housing budgets using a variety of means. These are explained below.

**Figure 3**  
The flow of resources for a local authority's housing



Source: Audit Commission

## Income

- 30** A council's annual income for council housing is determined largely by the following:
- rent and service charges (a proportion of which is supported by housing benefit);
  - HRA subsidy; and
  - interest on balances.

## Rent and service charges

- 31** Rent and service charges are the principal sources of income for council housing (as they are for rented housing generally). They affect the cost to the public purse of housing benefit and they affect the disposable income of tenants. The fact that some tenants receive housing benefit does not make an appreciable difference to the amount of income received by the council as the landlord (although it will be an important personal finance issue for individual tenants). The council, as landlord, receives housing benefit (known as rent rebate) in place of rent for those tenants who are eligible to receive it. This is paid from the council's general fund, which in turn is reimbursed by central government.
- 32** Central government exerts a strong influence on council rents through the national rent regime, which gives councils and housing associations increasingly limited scope to vary rents if they are to comply with the target rents set by government. Under the government's rent structure, the rent is set in relation to local earnings, property size and value. The target date for actual rents to reach the target rent is 2012. This means that at present councils' rents may differ from each other and from the target.
- 33** Service charges make up a small proportion of a council's total housing revenue, but they are an important issue for some authorities. However, a council's scope to levy service charges is limited, as these may not exceed the total cost of the services provided. There is also a ceiling on the rate of increase of all charges to tenants (and, of course, councils may quite reasonably want to minimise housing costs to tenants). Paradoxically, councils have some limited flexibility in how service charges are apportioned, in certain circumstances they need not be solely applied to the properties that receive the services. An example of where this might happen in practice is where the total cost to tenants of living in a tower block would be prohibitively expensive compared with nearby houses if tenants had to pay for services in addition to the rent. Services supplied to both tower block tenants and nearby houses might be apportioned to avoid the charges becoming prohibitively expensive for the flat tenants.

- 34 A number of authorities do not charge separately for services – they include the cost within the overall rent. Authorities might obtain higher subsidy through doing this because ‘limit rents’ (used in the calculation of housing benefit) apply only to rents and not to service charges. Housing benefit subsidy is only paid up to the limit rent, so by removing the service charge element, rents will move closer to (or below) the limit rent. This will then allow increased subsidy to be claimed. To avoid local authorities using this device too widely, only a percentage of this gain may be claimed.

### HRA subsidy

- 35 The level of HRA subsidy is usually an important factor in determining the size of the housing budget. HRA subsidy is determined by central government, according to a mathematical estimate of councils’ assumed income and expenditure needs – their ‘notional HRA’. Some 82 per cent of councils are entitled to less than zero subsidy – termed ‘negative subsidy’. Instead of receiving subsidy, councils provide money out of locally raised income to the government for redistribution. This requires councils to charge higher rents than is necessary to meet the current costs of their own service provision and stock investment, as determined by the government’s calculations. The majority of the negative subsidy that councils pay into the centre is redistributed to a small number of other councils. Most councils have a notional surplus of income over expenditure, but this is because they have not built any new housing for many years and there is relatively little outstanding debt on existing stock, with consequently low debt repayments. Councils with unusually high assumed operating costs or large notional outstanding debts are likely to receive a positive amount of HRA subsidy to balance their accounts.

### Expenditure

- 36 Expenditure may be broken down into the following components:
- day-to-day management and maintenance;
  - depreciation and capital expenditure through making a revenue contribution to capital outlay (RCCO); and
  - debt financing.

### Management and maintenance

- 37 Day-to-day management and maintenance is usually the largest part of a council’s expenditure. Each council has an annual budget, which it spends throughout the year as it

sees fit. In practice, though, discretion is limited. Housing is essentially a routine business, with most income necessary to maintain basic services. There is little or no surplus to spend at the end of the year and additional cash for investment is most likely to be generated by improved efficiency. The exception is where recent changes to the HRA subsidy system have led to some councils receiving substantial increases in revenue funding.

## Depreciation and capital expenditure

- 38** Depreciation is an accounting practice that allows the cost of an asset to be spread over the period of its use. The depreciation charge for council housing stock is calculated according to proper accounting practice. In council housing, depreciation is analogous to the amount that needs to be spent on replacing building components that have reached the end of their useful life, such as roofs and heating systems. Councils are required to charge a prescribed amount each year to depreciation, depending on the nature of their housing stock. One component of the HRA system is the MRA, which represents the estimated average annual cost of maintaining the condition of the housing stock over a 30-year period. It is based on the number, size and type of houses. The MRA is likely to constitute a reasonable estimate of depreciation for HRA properties, although the authority must satisfy itself that this is accurate.
- 39** While it is compulsory to charge a specified amount to depreciation, which equates to an amount being spent on major repairs, councils are allowed to make additional revenue contributions to capital outlay (RCCO) if they wish. They could alternatively obtain capital by prudential borrowing and use the revenue to finance the additional debt (see section on new capital finance, overleaf).

## Debt financing

- 40** Most councils still have financial commitments in relation to debt from earlier years and must earmark some of their revenue for loan repayments. Councils have incurred housing debt because central government for many years allocated capital to councils in the form of borrowing approvals. Such borrowing approvals were accompanied by a long-term increase in HRA subsidy sufficient to finance the debt. Central government has controlled the amount that councils have borrowed because the total amount of public sector debt appears on the government's accounts. From April 2004 borrowing approvals have been replaced by prudential borrowing. (See section on prudential borrowing, paragraph 45.)

## New capital finance

- 41 Local authorities need capital to invest in their own housing stock and to address poor conditions in owner-occupied housing. Local authorities can access several sources of capital and the investment required for a particular project may be raised using one or more of the following methods:
- In the public sector:
    - capital allocations:
      - from the regional housing pot; or
      - additional resources secured through a successful ALMO;
    - prudential borrowing; or
    - special initiatives such as housing market renewal.
  - From the private sector:
    - asset sales including RTB; or
    - public private partnerships.

## Capital allocations

- 42 Capital allocations to local authorities take the form of borrowing supported by government, which are termed supported capital expenditure (SCE). Local authorities may take out loans to incur SCE and an element of the cost of financing the debt is included as a component of the HRA subsidy received by the council. Within each local authority, debts are managed through the council's general fund, using rules to ensure that the housing debt is kept separate from other debts. Over the longer term, these debt repayments represent a significant cost to the national HRA. Councils' outstanding debt levels differ substantially because of past capital allocations and receipts. This is one of the factors that affects the extent of redistribution of revenue between councils in the national HRA.

### Allocations from the regional housing pot

- 43 The amount of capital allocated to each English region is determined by the government according to an assessment of needs. Regional housing boards – operating within the guidance issued by government – determine the distribution within an individual region, subject to approval by ministers. This single regional pot is for distribution to both councils and housing associations. Some councils may not receive any capital allocations through this process, while others may receive sufficient to meet their investment needs for

decent homes. If councils need more capital than their allocation, then the government expects them to use an alternative stock ownership or management approach to raise the required resources. The basis on which regional distribution is made lacks transparency and does not directly link local needs to regional strategies and national priorities. Since this method of resource allocation began, councils have been guaranteed that they will receive at least 70 per cent of the previous year's allocation. But public policy statements indicate that the phasing-in period ends in 2006/07, with the prospect for future guarantees unclear.

### **Arm's length management allowance**

- 44 The capital allocated to councils with successful ALMOs is supplied in much the same way as the allocations through the regional housing pot, as SCE. However, the capital allocations for ALMOs are determined by central government in relation to authorities' individual bids and are conditional on the council providing at least a 2-star housing management and maintenance service as assessed by the Audit Commission.

### **Prudential borrowing**

- 45 The principle of prudential borrowing is to allow a council to decide itself how much to borrow, based on the amount it can sensibly afford to repay. A council's borrowing limit under this system is therefore limited by its 'surplus' revenue, not by government imposition. Prudential borrowing is of limited use in council housing because the HRA subsidy system exists to claw back for redistribution any assumed 'surplus' revenue. If an authority does receive a larger amount of subsidy through the notional system than it actually spends – perhaps by spending less on management than the formula predicts – this could be used to finance prudential borrowing.

### **Special initiatives**

- 46 Some councils may receive additional capital funding through special initiatives. These include housing market renewal, which is designed to improve the local housing market – for example, through renewal schemes and targeted demolitions.

### **Private sector investment**

- 47 The level of investment required in public services and the risks associated with capital investment, have been key factors stimulating greater private investment in the public sector. Risk-sharing between public and private organisations is credited with producing more carefully considered investments. It has also reduced public borrowing, for example, in cases where council houses are sold to private individuals under the RTB scheme.

### Asset sales

- 48 Most councils own a wide variety of different assets such as land, buildings, car parks and so on. Some of these could be sold in order to raise capital. Local authority capital is not ringfenced to particular service areas, but there are rules that encourage councils to spend the proceeds from the sale of housing assets on housing services.<sup>1</sup> If the value of housing assets sold exceeds the council's capital allowance, the excess is subject to national pooling.

### Stock transfer

- 49 A distinction may be drawn between selling assets to individuals in the private sector and involving a private sector organisation in running a service formerly provided by the council. The most common method of raising private finance for social housing is LSVT, in which council housing stock is sold to a newly formed or existing housing association. Housing associations can afford to borrow the money because the market value of tenanted council housing is low and housing associations are outside the subsidy regime of council housing. The stock transfer programme is regulated by the government, which receives a 20 per cent levy should a council's capital receipt exceed the outstanding HRA debt.

### Private finance initiative

- 50 A less common method of raising private finance for housing is through the PFI. This involves a commercial contractor providing and operating a fixed asset. The asset might be either a housing scheme or a component element, such as its heating system. The council pays for the contract over its life and receives a specific subsidy from the government to cover the capital element of the PFI in the form of an annual allowance. This is calculated by government and is based on the scale and length of the contract and an estimated interest rate for the repayment of the capital value of the transaction.

## The notional housing revenue account

- 51 The amount of money a council has to spend on council housing services is largely determined by the government, through the distribution of HRA subsidy. The total amount of HRA subsidy distributed to councils nationally is determined by the size of the national budget for council housing. Councils receive a share of the total available resources, but this is unlikely to be sufficient to invest adequately in their stock and to provide quality

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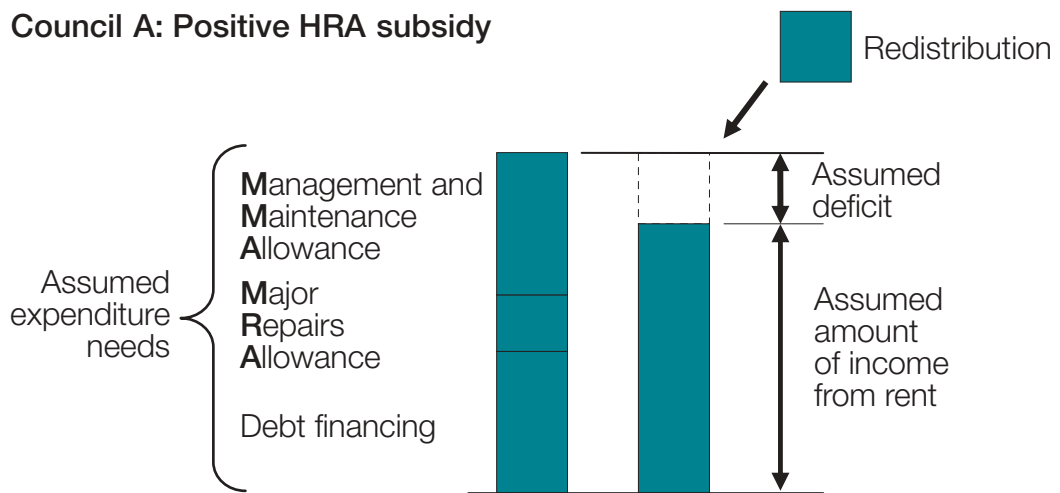
<sup>1</sup> Local authorities' assets are separated into housing and non-housing. Each has its own set of rules.

services. The notional HRA is the name given to the model used to estimate each council's income and expenditure needs, which ultimately determines the amount of HRA subsidy each receives.

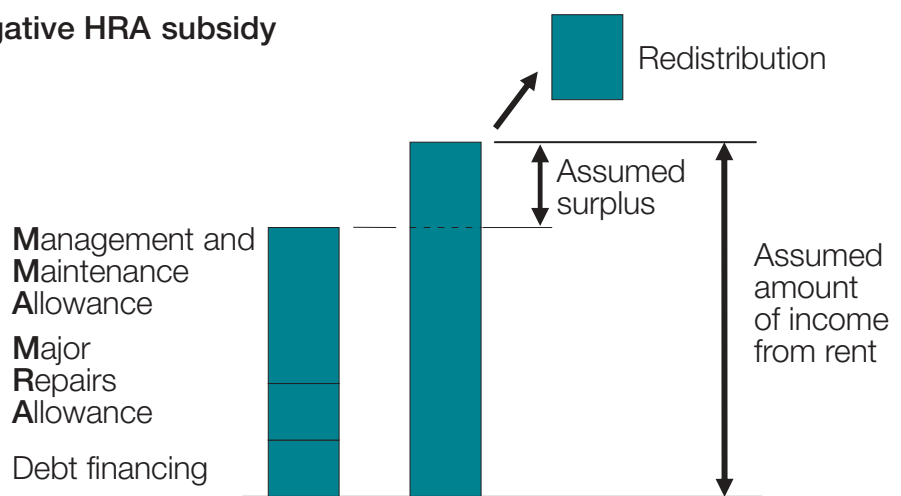
**Figure 4**  
**Action of the HRA subsidy system**

Some of the money paid into the centre is used to subsidise other councils.

**Council A: Positive HRA subsidy**



**Council B: Negative HRA subsidy**



*Source: Audit Commission*

## Notional income

- 52 Within the notional HRA, a council's rental income is estimated using a guideline rent per dwelling. The guideline rent is calculated with reference to the formula rent, which takes into account factors such as the number of bedrooms, average earnings and local property values. The guideline rent is set to converge with the formula rent by 2012 under the rent restructuring regime. Application of the government's guideline rent per dwelling, less 2 per cent for vacant property, provides an estimate of the council's income. This assumed 2 per cent loss has not varied since the current system was introduced and does not reflect the different housing markets that local authorities are involved in. The council's real income will vary from the estimate for many different reasons, such as:
- most councils do not charge the same rent as the government's guideline (though this will change with rent restructuring, which will be completed in 2012);
  - the notional HRA does not take into account service charges, which some councils levy; and
  - the actual level of vacant property varies significantly.

## Notional expenditure

- 53 The estimated expenditure needs of councils are calculated by a series of allowances; primarily:
- management and maintenance;
  - major repairs; and
  - notional debt charges.

## Management and maintenance

- 54 A council's management and maintenance allowance represents its share of the national budget for basic housing services. Actual expenditure is subject to varying local pressures and may differ from the allowance. The government introduced a new method of estimating councils' allowances in 2004. Councils' spending needs were related to past expenditure, but the new system is based on an estimate of spending needs and takes into account a variety of factors. They include the number and type of dwellings, geographical cost variations, property turnover and crime levels (**Box A**). The new system is primarily buildings-based and so takes little account of the variance in management costs associated with particular tenant populations.

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## Box A

### How councils' revenue funding for management and maintenance is determined

The government determines councils' management and maintenance allowances in two stages:

- stage 1: estimation of the national need to spend on (a) management and (b) maintenance; and
- stage 2: estimation of the spending needs of individual councils to determine how resources are distributed.

The total funding available is less than the national need to spend, so resources are distributed in proportion to councils' spending needs. A quirk of the process is that councils' allowances are scaled up for management and down for maintenance so the total distributed amount matches the total budget.

This new formula produces a significantly different pattern of allocation from the past, so there is transitional protection to ensure that during the protected period all councils receive increases of at least the rate of inflation. This also means that benefiting councils will not see the full effect of their rise in resources for several years.

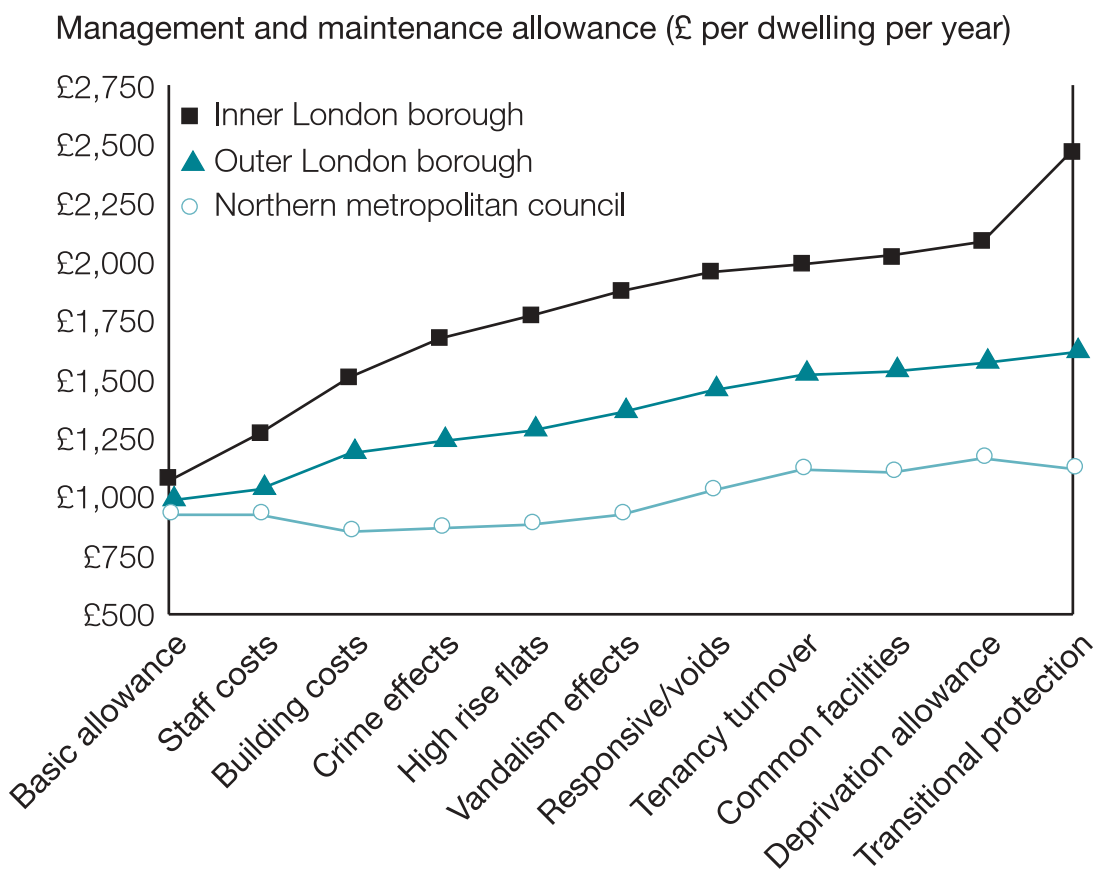
**Figure 5, overleaf**, shows how the allowances build up in three different urban councils. Each council receives a standard amount per property, based on the mix of property types, which is fine-tuned by factors including the application of regional cost variations and the local environment. This can mean, for example, that a council might lose funding if its local crime rate is below average.

Geographical variations in staff and building costs account for much of the differences in allowances for apparently similar councils. The formula makes use of cost indices, not councils' actual costs. Actual costs vary according to local staff productivity and procurement arrangements. Transitional protection is substantial for some councils – in particular, for inner London boroughs – and illustrates the extent of cost savings that will have to be achieved.

*Source: Audit Commission*

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**Figure 5**  
**Examples of how allowances build up in different urban areas**



Source: Audit Commission

### Major Repairs Allowance

55 The MRA is the amount that the government estimates councils need to spend on routine basic capital repairs to housing stock. In a comparable process to the allocation of management and maintenance allowances, the MRA takes into account the number of properties of different types and the theoretical cost of maintaining stock in its current condition. It is based on a series of assumptions, such as the service life of various building components, but does not take into account the actual condition of the stock. Real costs can therefore vary substantially from the estimates. The absence of consistent and up-to-date local stock condition information has so far prevented its incorporation into the national resource allocation system. The MRA is intended to maintain stock in its

current condition – funding the replacement of components as they reach the end of their useful life. Funding for catch-up repairs to improve poor stock condition is a function of the capital finance system.

### Capital financing requirement

- 56 Councils receive an allowance sufficient to finance outstanding debts that have resulted from government-approved borrowing. In practice, the actual cost of capital financing may vary from the allowance – for example, if councils have voluntarily paid off some of their debts faster than anticipated by the government.

## Why does the real HRA differ from the notional one?

- 57 Rent levels are a marginal factor in determining local housing service expenditure. The primary factors that control expenditure are the annually calculated government allowances and annual awards of capital. However, some local sources of income are not currently taken fully into account by the HRA subsidy system. These include:
- income from charging above-guideline rent (which is being phased out);
  - service charges (being phased in by a number of local authorities);
  - the council's actual rent collection performance; and
  - surplus revenue from reduced actual debt financing costs.

Each of these income sources are explored below.

### Income from above-guideline rent

- 58 Currently, most councils set rents that are above government guidelines, so their real income is higher than the government assumes. Since the mid-1990s, the above-guideline component of rent has not attracted rent rebate subsidy, so councils have only benefited from about half the value of the above-guideline rental income. Rent restructuring is intended to provide a more rational basis for setting rents. In future, guideline rents will go up. This will mean that some of the received rent that was previously outside the subsidy system will now be recognised by the system. In effect, councils will charge the amount of rent that the government expects them to, effectively reducing the extent of local determination of rents. This will result in a reduction in the local level of rent determination.

## Service charges

- 59 Establishing specific additional service charges can increase a council's local income because service charges are additional to the rent, which is set by the national formula. This will not have a detrimental effect on the housing benefit (rent rebate) reimbursement received, as the service charge element will also be reimbursed, subject to complying with the housing benefit subsidy limitation rules. Councils that introduce service charges need to consider several factors, including affordability, the effect on leaseholders and the cost-benefit to the council. They must also keep within the maximum allowable annual rent and service charge increases of the Retail Price Index + 0.5 per cent + £2 per property per week. In practice, these financial constraints and policy considerations severely limit the scope to raise income through service charges. However, separating service charges from rent can maximise the available housing benefit subsidy.

## Rent collection performance

- 60 There is a financial incentive for councils to be business-like and to maintain high rent collection rates. Although rent income is in effect pooled nationally, councils are responsible for its collection and the subsidy system assumes that each council collects 98 per cent of the rent for all properties. Councils do not receive subsidy to offset the effect of void properties or poor rent collection rates, so every pound not collected is a pound lost.

## Surplus revenue from debt financing

- 61 A few councils have a source of local revenue because of a discrepancy between the actual cost of financing outstanding debt and the amount of housing subsidy received for this purpose. The difference may have arisen for different reasons, for example, if councils have not taken out loans to the full value they were allowed. Any surplus revenue can be used on current services, or perhaps to fund additional future borrowing.

## Funding for the repairs backlog

- 62 Poor-quality homes damage the health and well-being of their occupiers and may cost their tenants more to heat. They ultimately cost more for the owner to manage and maintain and are likely to require more frequent and expensive repairs. Badly maintained homes have a negative impact on their neighbourhood. Councils' extra costs are recognised in the calculation of maintenance allowances through the use of a repairs

backlog factor. The same backlog factor is applied to all councils, regardless of the condition of their houses. Its practical effect is to marginally shift the balance of funding between councils with different proportions of flats and houses, with older and larger properties attracting more funding. Clearly, this is not an accurate estimate of a council's spending needs, nor is it consistent with the treatment of other factors in the formula, such as crime levels. Nevertheless, there are arguments against giving more revenue funding to councils with badly maintained stock: it would be better for them to have a substantial injection of capital to fund a programme of improvements, rather than a continuous stream of subsidy to allow the status quo to continue. Additional capital may currently be obtained through the options appraisal process and any subsequent capital allocations through the regional housing boards.

## Summary

- 63 The allocation of capital to tackle the backlog of repairs is considered at local, regional and national levels. Yet the information flow between the local authority, regional housing board and government, which is vital to decision making, is insufficient. Consequently, the decisions lack clarity, consistency and reliability. Equally, it would be difficult to control the distribution of resources at central government level because the quality of information on councils' investment needs is inadequate.
- 64 The allocation of revenue through the notional HRA system is a very complex rationing and redistribution system. When it was introduced over 15 years ago almost all housing authorities had stock, council housing capital was earmarked and there were no business plans or national targets for decent homes – yet the system's core purpose has remained unchanged. The next chapter explores the consequence of this in detail.

# 3

## Consequences of the national system

### Introduction

- 65 This chapter examines the consequences of the current council housing finance system. It considers the geographical distribution of revenue resources, the outlook for the HRA over time and the current and potential impact on local authorities. The recent policy reforms that are likely to have the most significant impact locally are the changes to councils' management and maintenance allowances, together with the effects of rent restructuring.

### Redistribution of revenue funding

- 66 At the national level, the amount spent on council housing services is about the same as the amount raised from rent. This is not a point of principle: council housing quite rightly has to compete with other public programmes for resources and its budget has varied over time as national political priorities have changed. Although council housing is presently largely self-financing at the national level, it is not self-financing at the regional or local level because of the redistribution between councils. The amount redistributed is the difference as calculated by government between its assumed income and expenditure in the notional HRA for each local authority.

### Assumed income

- 67 The rent restructuring policy requires local rents to be related to local earnings and property values. Average rents in 2012 will vary between £50 and £110 a week in different parts of the country. Individual property rents will also vary within a local authority boundary. Total actual rental income depends on various local factors, including the time taken to re-let and repair properties and voids levels.

### Assumed expenditure

- 68 The principal components of council housing expenditure are the costs of management and maintenance, major repairs (depreciation) and debt financing.

### Management and maintenance allowances

- 69 The key determinant of revenue expenditure on general housing services is the management and maintenance allowance calculated by government. By 2012, most councils' management and maintenance allowances will be between £20 and £40 a week per dwelling – but around 10 per cent of housing authorities will have significantly higher allowances of up to £70 a week.

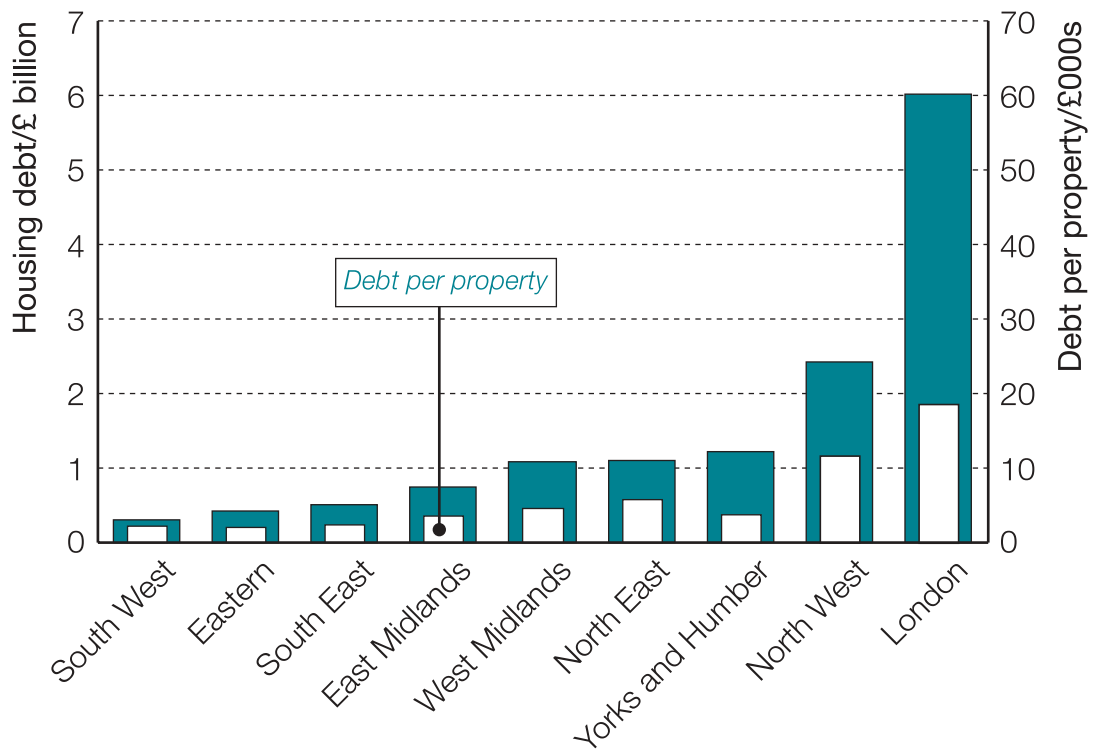
### Major repairs

- 70 The MRA depends on the type of housing stock. It is a relatively small proportion of the assumed expenditure needs and will vary between £10 and £20 per property per week in 2012.

### Debt financing

- 71 The variation in the cost of debt financing is the largest of all the main cost components. The cost varies between zero and nearly £60 a week per property. The distribution of housing debt is skewed towards the most urban areas. The regions with the highest outstanding housing debts are London and, to a lesser extent, the North West. A more detailed assessment shows that the level of outstanding debt, at individual authority level, ranges from zero to £30,725 per property (2004/05) (**Figure 6, overleaf**).
- 72 The more urban areas tend to have the highest housing debts because more capital borrowing has been allowed in these areas, where assessed needs are higher. Capital receipts from RTB sales have generally been highest in suburban and rural areas, which not only helped to pay off debts, but also allowed the government to reduce the level of borrowing permissions in these areas. Investment through the Housing Investment Programme (HIP) for major repairs has had a long-term impact on housing debt. Capital allocations from regional housing boards and the ALMO allowance continues to be funded in much the same way as the old HIP system, so this type of funding will continue to add to overall council housing debt. The allocation of new capital is one of the factors affecting the extent of long-term cross-subsidy between councils – the cost of debt finance is indirectly shared between all councils.

**Figure 6**  
Regional distribution of housing debt in 2004/05



*Source: Audit Commission desktop modelling*

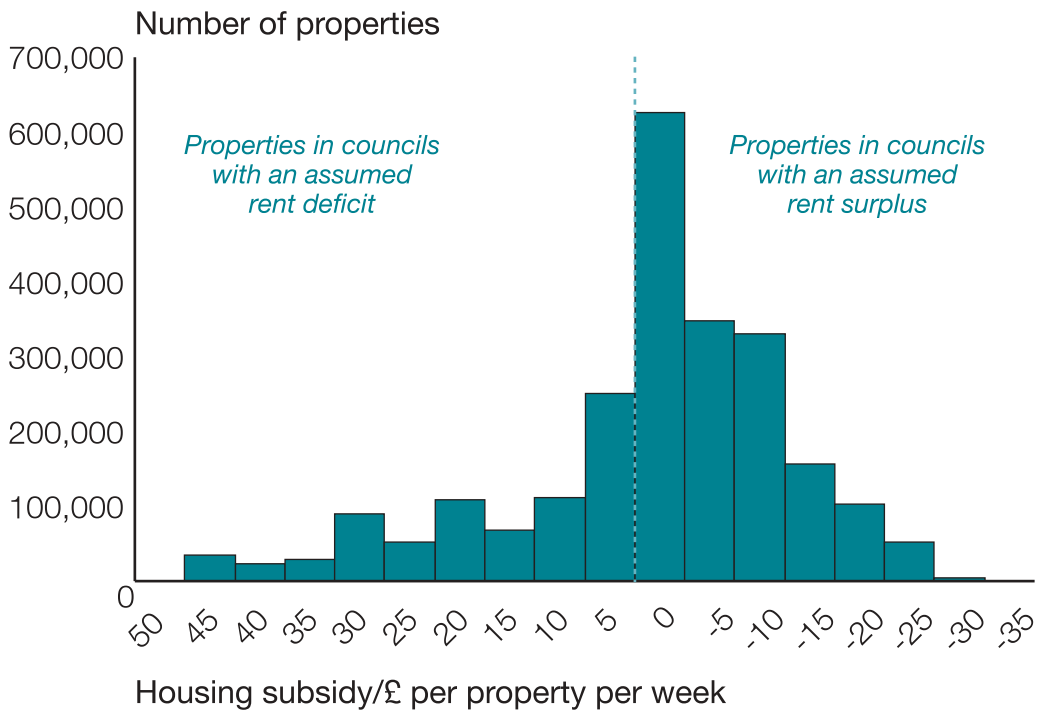
## The impact of subsidy distribution

73 The pattern of subsidy distribution depends on the combination of the components of this assumed income and expenditure. Some expenditure varies in relation to income – for example, higher staff costs and rent tend to correlate. But there is less connection between rent and some other factors, such as the costs of major repairs and debt. Councils receiving positive subsidy are mostly in inner city areas, but the explanation may lie in the type of housing, the amount of housing debt, or because the council is in an area of the country where rents are relatively low compared with other costs.

### Distribution of housing subsidy at the local authority level

74 At the local authority level, 82 per cent of all councils owning 63 per cent of total stock are in negative housing subsidy. This negative subsidy amounts to £630 million per annum. For the most part these are smaller councils.

**Figure 7**  
Distribution of housing subsidy



Source: Audit Commission desktop modelling

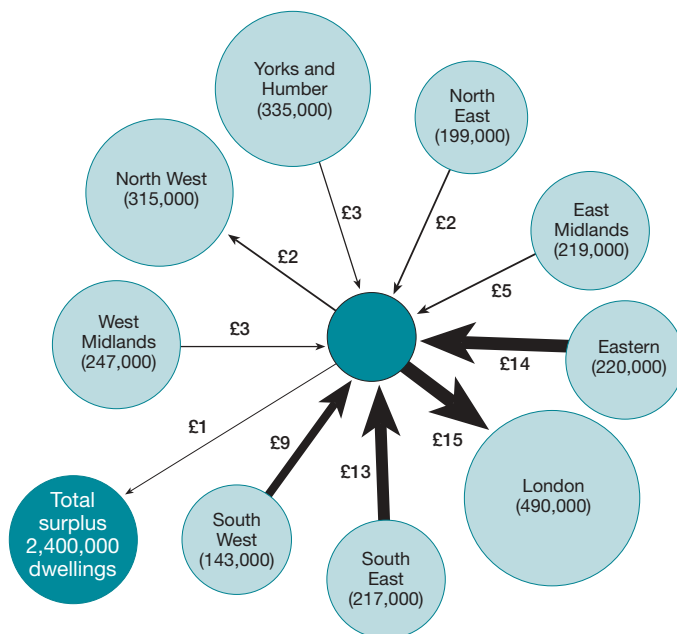
## Distribution of housing subsidy at the regional level

- 75 The extent of redistribution of revenue between different regions is planned to reduce gradually towards 2012, but individual regions are not likely to become self-sufficient within this timescale (**Figure 8**). The regions in the Midlands and the North are more self-sufficient than regions in the East, the South and London. In Northern regions, tenants' contribution or receipt from the central 'pot' is mostly within the range of £2 to £5 per week. In regions close to London, tenants typically pay about £13 to £14 a week into the pot. London is the largest net recipient of housing subsidy. Arguably, the housing markets in the regions surrounding London are influenced by London and so could be seen as parts of a super region, taking in the identified growth areas in the Sustainable Communities Plan (**Ref. 6**).
- 76 The pattern of subsidy distribution is the result of the combination of local rent, allowances and outstanding debts. These factors will change as they adjust to new levels for stock-retaining councils. Further change will come about through stock transfers. Tenants of councils with assumed rent surpluses who vote for stock transfer would release up to £30 per week per tenancy to support investment in their homes and supporting services.
- 77 The most striking difference between now and 2012 will be the reduction in the amount of subsidy the London region receives – it may reduce to about half its present level. The change is a consequence of the government's new method of calculating councils' spending needs, which allocates a smaller share of total available resources to London boroughs than previously. The suspension of the planned changes in 2005, which would have been a step in this direction, leaves it unclear as to whether the suspension is merely a postponement or whether it signals a more fundamental rethink of the system.

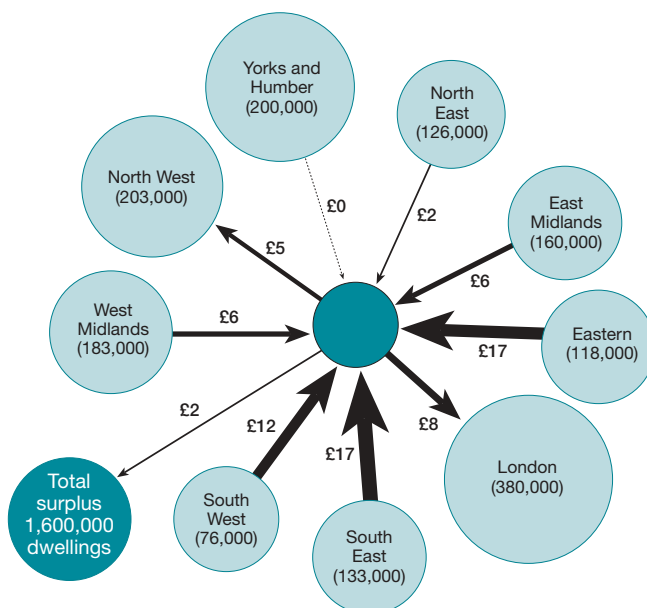
**Figure 8**

**Geographical redistribution within the HRA**

Average amount of housing subsidy per dwelling per week in each region **2004/05**



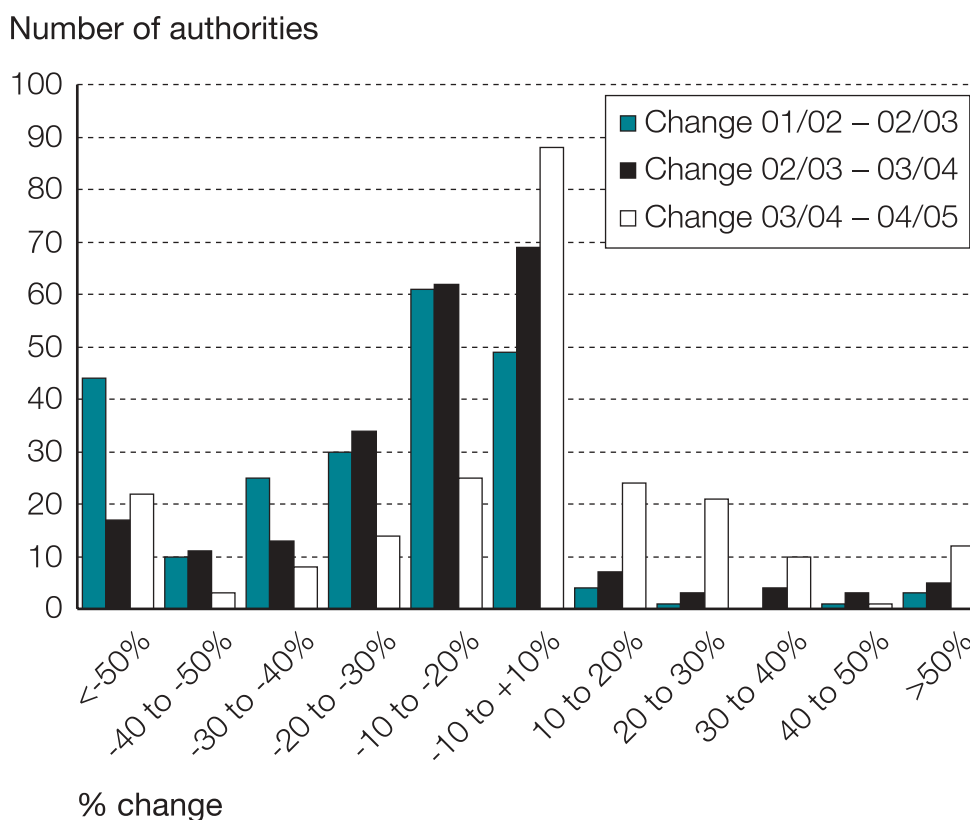
...and what the pattern might look like in **2012**, assuming a continuing stock transfer programme of around 60-70,000 dwellings per year to 2009.



Source: Audit Commission

78 The introduction of the new method of calculation, including the unforeseen suspension in 2005, is not the only change that has impacted on authorities in recent years. Fluctuations in HRA subsidy, whether negative or positive, can occur on an annual basis. A review of the amount of subsidy payable to individual authorities indicates significant year-on-year volatility. **Figure 9** shows the degree of variation of housing subsidy per property, excluding the reimbursement of rent rebates, between each of the years 2001/02 to 2002/03, 2002/03 to 2003/04 and 2003/04 to 2004/05. This shows that at the extreme the variation can be as much as 50 per cent per property between consecutive years.

**Figure 9**  
**Change in housing subsidy per property per year for the years 2001/02 to 2004/05**



Source: Audit Commission

79 From the perspective of an individual authority, orchestrating the business planning process to take account of such variability can require significant annual adjustments to the amount of revenue available to support tenant involvement and service delivery. These adjustments not only have to reflect the real investment and service needs, but also the impact of the notional framework. This can significantly impair the value that business planning brings to council housing. In some authorities the stop-go consequences of subsidy fluctuations make meaningful business plans difficult to maintain, undermining their usefulness.

## Decent Homes

80 The government requires all social housing to meet the Decent Homes Standard by 2010. This represents a substantial challenge for most councils. Mainstream revenue funding is not intended to meet the costs of catch-up repairs or modernisation. Instead, a number of potential routes are open to councils to raise the required capital funds. These range from alternative stock options and capital allocations through the regional housing boards to locally raised resources. The viability or merit of each of these possibilities will depend on individual circumstances. Our latest assessment of councils' progress towards achieving Decent Homes is shown in **Table 1, overleaf**.

**Table 1**  
**Progress towards the Decent Homes Standard**

DHS category	Real change in council income to 2012		
	poor (less than 0%)	medium (up to 30% increase)	high (over 30% increase)
Category A Can meet investment needs with MRA	24 councils	44 councils	26 councils
Category B Can meet investment needs with all available resources	16 councils	21 councils	8 councils
Category C Cannot meet investment needs with all available resources	10 councils	33 councils	15 councils

*Source: Audit Commission desktop modelling*

**81 Table 1** shows our estimate of how many councils will be able to meet the Decent Homes target through stock retention. In order to do so, councils need sufficient capital to meet their investment needs and sufficient revenue to provide day-to-day services of a reasonable quality. From the table, stock retention is unlikely to be a good option for councils in the left-hand column. These councils will experience real reductions in revenue. Retaining stock is also not likely to be possible for those councils in the bottom row, which will not have sufficient capital.

**82** Although the quality and quantity of data available on local authority housing is better than it was a few years ago, a degree of uncertainty still surrounds councils' estimates of the investment they need to meet decency standards. The reasons for this uncertainty are as follows:

- the condition of housing stock is difficult to establish accurately and is affected by the quality and frequency of stock condition surveys and the error associated with sampling;
- changes in the condition of stock, even after a major survey, are not always systematically recorded, so information quickly becomes out of date;
- major repairs programmes, like many other projects, can be subject to unforeseen problems and cost over-runs;
- the cost of repairs will vary over the next few years, depending on inflation in the local building market and the procurement methods used;
- the standard of repairs can be tailored, to some extent, to the amount of resources available, within the scope of the Decent Homes Standard; and
- some councils require investment in supporting infrastructure or the demolition of some housing stock in order, in their judgement, to ensure that estates are sustainable in the long term and to achieve a good return on the direct investment in their stock.

### **Estimating availability of funding with stock retention**

**83** Having arrived at an estimate of expenditure needs, a council faces a number of uncertainties relating to the amount of resources available. These include:

- the availability of capital as determined by the regional housing board on an annual basis;
- the resources from RTB sales (and other potential new sales initiatives), which will depend on the strength of the local housing market over the coming years;
- the value of local assets that could be sold for reinvestment in Decent Homes repairs; and
- the proportion of the revenue budget that could contribute to Decent Homes work, especially where allowances have changed as a result of the government's new distribution formulae – which could change again in the future.

- 84 While some councils' Decent Homes investment is secure, many others are in a more precarious situation. Their decision making may be affected by various stakeholders who influence the amount of resources available and who may have differing priorities. A number of councils are likely to remain in potential difficulty in relation to the Decent Homes target. This includes councils that:
- cannot get support for a viable alternative stock option from their tenants other than stock retention;
  - cannot meet the performance criteria for an ALMO;
  - are too slow in deciding their options;
  - did not receive the anticipated level of capital from regional housing boards on a year-by-year basis;
  - experience problems during the course of the stock options process, such as an unexpected consultation result;
  - fail to manage the repairs programmes efficiently and effectively, or encounter unexpected problems during the period to 2010;
  - do not secure efficient investment programmes, or waste scarce resources; or
  - did not receive the anticipated level of subsidy or had to contribute more to the national pot than envisaged.

## Looking ahead: the balance of funding over time

- 85 Assuming that current policies and trends continue, the general outlook for the national HRA is that tenants will collectively pay more rent in real terms and councils will receive a real increase in income (above retail price inflation). How much of this extra rent will go to council housing services will depend on the total amount of housing subsidy that the government pays into the national HRA and the amount taken from it to fund other programmes. This will be determined in future spending reviews.
- 86 The overall level of housing debt will probably remain a relatively small proportion of total expenditure, depending on the amount of new borrowing and debt repaid that flows from future stock transfer decisions. Factors such as additional capital allocations and the ALMO programme will tend to increase the total amount of debt, while stock transfers will tend to decrease it. Councils are no longer required to set aside capital receipts against

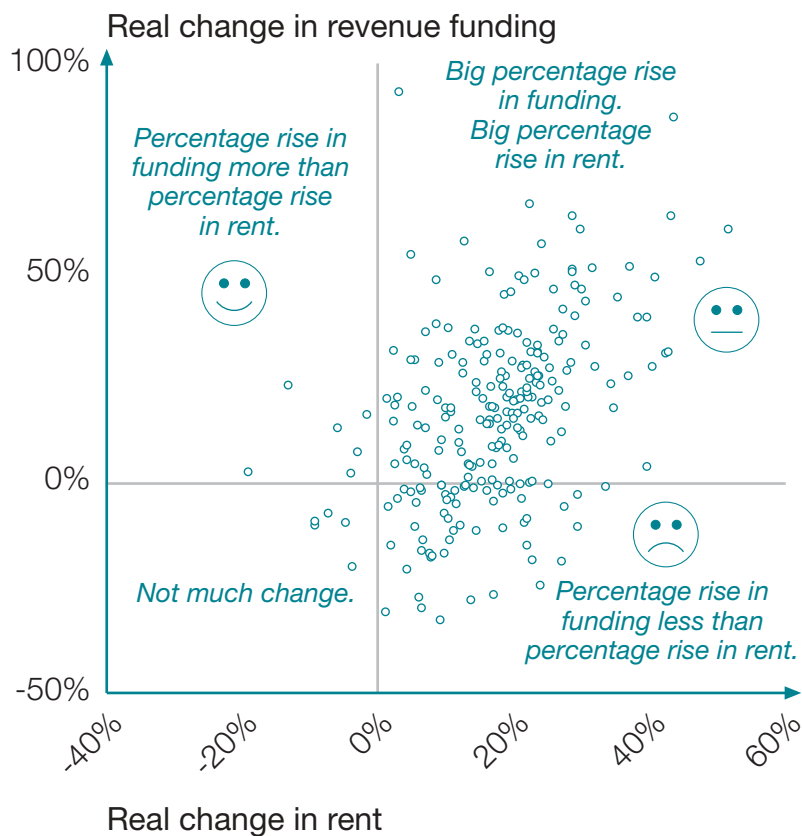
local housing debt, so existing debts will probably continue. Councils might take out unsupported loans under the new prudential regime, but this will not directly affect the amount of subsidy they receive.

- 87** Funds available to pay for revenue expenditure will depend on the overall level of housing subsidy. Assuming that councils' allowances rise as expected, funds available for services will not increase in line with tenants' rents because the proportion of housing debt is likely to rise and the potential rent surplus will reduce as a result of stock transfer. In addition, some councils will lose the benefit of income that is retained locally from above-guideline rents.
- 88** The government has signalled that it wishes to move to three-year financial settlements for local authorities. Whether this is to apply to the HRA has yet to be determined, but if introduced it could help support more realistic business planning than under the current system.

## How will changes be perceived?

- 89** The most noticeable change for individual tenants is likely to be the increased rent and service charge they pay. Many council tenants will not understand that their council landlord will not benefit from the higher charges because of changes to the method of calculating councils' allowances. The full impact of the changes will not be apparent for several years because the new allowances will be phased in gradually, but trends are already beginning to emerge.
- 90** The new system of rents and subsidy is intended to be fairer because it takes account of local incomes and property characteristics and is based on more reliable data. Although national policy can improve the fairness of distribution of funding between different councils, there will remain the general question of equity. Should people on low incomes in one part of the country, whose homes need additional investment, subsidise people in a similar situation elsewhere? In a number of authorities income per property will increase. The challenge for these councils will be to raise standards at least in proportion to the extra charges paid by tenants. For most councils, a large proportion of additional rental income will not be available to spend on improved housing services. These authorities will have to consider the implications of this and plan carefully to achieve greater efficiency.

**Figure 10**  
**The combined impact of rent and revenue changes**



**Source:** Audit Commission desktop modelling

- 91 Each point on the graph shows a different council’s rent rise compared with its funding for day-to-day services, which will affect tenant perceptions of value for money. The percentage change in income and expenditure is shown, but in cash terms, average rents will increase more than day-to-day service expenditure because rent also funds debt financing and major repairs.
- 92 Local authorities’ service plans need to reflect the new trend in their local income, against existing trends such as the impact on revenues from RTB sales. For those with real increases in income, there are clear opportunities for service improvements. Where rents are not increasing as quickly as income there may be less pressure from tenants about how increased funds are used. Members and ALMO board members need to be sure

that they hold managers to account to ensure that improved services represent value for money. Where real incomes are set to fall or lag significantly behind rent increases, authorities will need to focus on efficiencies and potentially selective service reductions. Again, members, ALMO board members and tenants should understand the need for change and focus on potentially difficult local decisions so that they can minimise any adverse impact on services.

- 93 The forthcoming changes to income and expenditure are the background to a more complex local picture. For example, rent restructuring affects the price of accommodation for individual tenancies and other local funding systems, such as Supporting People, may be a particular local issue. Some HRAs have had their income boosted on a one-off basis by Supporting People, where services that were formerly funded from within the HRA have been transferred into Supporting People budgets. The range of local effects is illustrated by case studies (**Box B**).

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## Box B

### How will different councils respond to changes in funding?

**Council A** will receive substantial increases in revenue income over the next few years, as new allowances are phased in. The council plans to improve the performance of its housing staff through an extensive training programme. For many years, the council has recruited for relatively low-grade positions, appropriate for the salary it could offer. A proportion of the additional funding will be spent on training and subsequently it will translate into higher staff costs. This might enable the council to recruit and retain more highly skilled staff, but the challenge will be to ensure that the additional costs are reflected in improved services that are valued by tenants.

**Council B** will receive inflation-only increases in allowances over the next few years as new allowances are phased in and it will lose income as the above-guideline proportion of the rent is phased out. At the time of the research, the council had yet to decide a course of action to restructure services in line with its expected funding. It had begun to implement a programme of ‘unpooling’ service charges in order to replace some of its lost income, but tenants face the prospect of increased charges with no improvement in services.

**Council C** had historically operated a policy of low rents and it had relatively low expectations of service quality. More recently, the council introduced a large-scale programme of service improvement, which fortunately is supported by the recent

changes in national housing finance policy. Both rents and service expenditure will increase, although the council also requires substantial capital investment to address problems of low demand for unpopular housing. The challenge for the council will be to coordinate a programme of capital investment, with service improvements taking place over many years, to reverse the cycle of decline.

*Source: Audit Commission*

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## Accountability for service expenditure

- 94 Councils are accountable to their tenants and residents in different ways. From a financial perspective, people expect to see a connection between what they pay and the quality of the services they receive. In council housing, despite the relationship between landlord and tenant being cemented in a formal contract, this is unlikely to be a straightforward issue. Firstly, the rent charged must be seen in the context of the local housing market, which varies around the country. Secondly, the amount of money received by the council is loosely related to the rent. Councils are still accountable for the way in which they spend money, but because of the national HRA, it isn't clear whose money it is they are spending.
- 95 Council housing finance is quite different to the system for housing associations, in which the housing association board is accountable for the entirety of locally raised income. Many council tenants and members would prefer council housing finance to operate in a similar way. But under present national policy the only way that would be possible is through stock transfer to a housing association – which may not be possible for other reasons.

## Incentive effects

- 96 The aim of the national subsidy system is to distribute funding on the basis of estimated need and the system is intended to be and largely is, incentive-neutral. Council officers we contacted during our research did not expect the latest changes to the system of revenue funding to alter this. For example, the system provides funding to help meet the costs associated with crime, but people generally expected crime prevention strategies to continue as before. Some of the changes, such as business planning, encourage a more structured and organised approach to asset management, which was generally welcomed, but this is offset by year-on-year variations and unplanned changes to subsidy. The fact that the MRA can be carried over from one year to the next, supporting long-term planning, mitigates these uncertainties to a degree.

- 97 The extent to which the system is intended specifically to enhance the effect of consumer pressure on housing providers is not clear. The need for services to reflect tenants' needs and aspirations is a continuing theme in government policy and tenants' expectations of service improvements may be raised because their rents will, on average, rise faster than inflation. But the funding of providers is not closely linked to rent increases, so tenant perceptions of value for money are likely to be distorted.
- 98 The Decent Homes Standard, the implementation of the national rent structure and the provision of quality services apply to both local authorities and housing associations. If tenant choice is supposed to exert market pressure on housing providers, a level playing field between the funding regimes of different providers is a key underlying issue. Because of rent restructuring, tenants will be able to compare the relative cost and quality of service provided by different housing organisations in a local social rent market. But if some providers are systematically funded more generously than others, tenant choice will not necessarily support the most cost-effective providers. While mainstream funding is reasonably incentive-neutral, some aspects of capital funding are not. The ALMO programme clearly provides an incentive to improve services for those groups of councils, such as those with substantial stock investment needs and fair performance. The incentive effects of regional capital allocations remain to be seen, as the new allocation process emerges.

## Bringing it all together

- 99 The overall picture is one in which councils have seen progressively more central control over their housing. The benefits include a real and necessary focus on improving stock condition, the introduction of a more objective approach to rent policy and the largely successful ALMO programme. But while centralised control is sometimes necessary, it needs to allow local managers the freedom to deliver excellent services, at the same time as controlling the risks inherent in poorer-performing councils. Inevitably, the better-performing councils we contacted in the research could point to areas where central controls have restricted their ability to deliver better services for local tenants and residents. Clarity about how the new regional capital arrangements fit with local council revenue and planning powers and on how far regional housing boards will take responsibility for national priorities, such as achieving Decent Homes, will be important in establishing a successful future framework.

- 100 The challenges for local authorities in bringing together different aspects of housing finance policy and resource allocation at a local level are best illustrated by some case study examples (**Box C**).

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### Box C

#### How have the changes in finance policy affected councils' strategic and landlord roles?

The tenants of **council D** have benefited from recent changes in housing finance policy. The average rent will decrease in real terms between now and 2012 and yet the housing service will be better funded as a result of the new allowances for management, maintenance and major repairs, Supporting People and ALMO funding. But the funding of general housing services has deteriorated and the abolition of Local Authority Social Housing Grant (LASHG) has affected the priority given to housing in capital investment decisions. Arguably, there is now a more level playing field between housing and other services, but the existence of matched funding in other service areas gives an incentive to non-housing projects. Despite identified local housing needs, there were no social housing completions at all in 2003 and private sector housing work has been cut back.

**Council E** has problems of low demand in much of its own housing stock, exacerbated by anti-social behaviour and deprivation. Its tenants' highest priority is community safety on estates. This means that funding is needed for policies that can help to improve overall attractiveness and 'design out' crime, which requires spending on common and external areas not covered by the Decent Homes Standard. Revenue funding is also needed to implement policies such as neighbourhood wardens and relevant social programmes to support capital improvements.

*Source: Audit Commission*

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- 101 The government sees social housing provision separated from councils' strategic and enabling housing role,<sup>1</sup> but council housing is part of the wider local housing market and it makes an important contribution to the local quality of life more generally. Indeed, council housing itself has become increasingly integrated with other forms of housing, largely as a

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<sup>1</sup> Councils' strategic and enabling role includes the development of housing strategy to balance the local housing market, homelessness services and private sector work, such as home energy conservation. Councils remain responsible for these functions if they transfer their housing through LSVT.

result of RTB sales. Council housing services must work with the grain of other local policy initiatives. Authorities need to ensure that business plans and strategies for their own stock complement wider local needs. This is not straightforward in the current financial environment.

- 102** The local ringfence means that councils' landlord and strategic functions each have their own pots of money, but the extent to which the landlord's pot should contribute towards other local objectives, such as wider regeneration, is likely to remain a matter for local debate. The new funding regime tends to focus on buildings-based costs and less so on the demands of tenants. The raft of recent changes in housing finance policy has caused some redistribution of funding, which has effectively made decisions for local people that arguably could have been better made by them with the benefit of local knowledge and by the application of locally raised resources.

## Summary

- 103** This chapter has examined the redistribution of revenue within the national HRA. Whether this is regarded as a problem depends on one's perspective, but it is certainly a source of contention for those local authorities that are net contributors to the system. The system blurs accountability, as its impact on local circumstances is hard to explain and understand.
- 104** The extent of cross-subsidy is as high as it is because the places that generate the most income are not always those with the highest costs. However, in a self-financing system, it is difficult to identify solutions that do not require additional funding. Individual councils might be able to opt out of the system by pursuing stock transfer, but if they are a contributing authority this increases the pressure on those authorities that do not sell their housing stocks.
- 105** Councils' historic housing debts – which are the legacy of a discontinued system and beyond the control of current local authority administrations – are a key driver in the system. It remains to be seen whether inner city councils will be able to reduce costs in line with the government's revised estimate of their expenditure needs without unacceptable deterioration in the quality of services.
- 106** At the heart of the criticisms of the current system lies the question of how to deliver equity, fairness and openness.

# 4

## Conclusions

**107** In this report we have explained, in a simplified manner,<sup>1</sup> the government's housing finance policy as it relates to the provision of council housing and services to council tenants and leaseholders. It is and has been since its creation over 15 years ago, a complex and sophisticated system to control national, regional and local level resources and their distribution.

**108** In arriving at our conclusions we have tested the council housing financing system against the following principles:

The national council housing financial system should:

- provide local accountability for council housing management, investment and stock condition;
- encourage and reward high performance, minimising perverse incentives;
- provide a customer-focused approach to the provision of housing and housing services in a local market setting;
- establish an equitable relationship in each locality between charges, service standards and investment in council housing and neighbourhoods;
- promote self-sufficiency for each council, while allowing councils to respond flexibly to the circumstances of the local market, providing stability and predictability in their relationships with their tenants; and
- support the government's objectives for council housing.

**109** As set out at the beginning of the report the Commission understands these objectives for council housing to include the following points:

- council housing and other social housing, should be available to meet the housing needs of those households that are unable to access the private housing market;
- all council housing must meet the Decent Homes Standard by 2010;
- council house rents must be affordable, in terms of their relationship to local wages and must comply with the national rent-setting regime;

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<sup>1</sup> For a comprehensive explanation of the system of financing council housing see **Ref 7**.

- services provided must be of a high quality; and
- there should be a high degree of local self-determination with significant tenant involvement.

- 110** In testing the system against these principles it is important to recognise that the guiding government policy was created in the late 1980s. Since the government's housing green paper in 2000, the policy context and operating environment have changed significantly.
- 111** The differences within and between local and regional housing markets have been emphasised by the government in the Sustainable Communities Plan (**Ref. 6**) the Barker Review (**Ref. 8**) and more recently the five-year housing strategy – *Homes for All* (**Ref. 4**). Local housing authorities now have a statutory requirement to produce a local housing strategy that should be a response to the current and anticipated housing pressures in their district. The expectation that local authorities should apply business-planning techniques to council housing has been government policy for several years. All of these measures give clear signals that understanding and responding to local housing market pressures are important elements of the role of local authorities.
- 112** The government has set two key national targets for the strategic management of the social housing sector as a whole. Both apply to local authorities and housing associations. The first is the delivery of the Decent Homes Standard by 2010. This is a significant commitment by government given the acknowledged scale of disrepair, particularly in relation to council housing. Local authorities are required to undertake an option appraisal to decide which approach they are to take to secure the necessary investment to bring their stock up to standard. Housing associations are expected to achieve the standard using the resources available to them through their normal business-planning arrangements.
- 113** The second is the local harmonisation of social housing rents by 2012 within a nationally determined framework. Again, housing associations are expected to achieve their target rents through the management of revenue costs and resources within their business plan. Local authorities have to take into account not only their business plan but the HRA subsidy implications, on a year-to-year basis, as well as changes in actual or notional income and expenditure.

- 114** In addition to the harmonisation of rents, changes to the financial management arrangements that support the housing benefit system mean that there are now very few policy differences between how the state support system deals with tenants of local authorities and housing associations or, indeed, private landlords. These changes have aimed to bring about a greater degree of fairness and consistency across the rented sector to the benefit of tenants.
- 115** Over the same period, a good degree of improvement has taken place in the provision of services by many local authorities as measured by comprehensive performance assessment (CPA).
- 116** As a response to the broader improvement, in 2003 the government introduced a number of freedoms and flexibilities for better-performing councils. None of these freedoms and flexibilities directly impacted on council housing services. The introduction of prudential borrowing – available to all councils irrespective of performance – may offer leeway to some councils. Where an authority can generate extra revenue this may support some marginal (but nevertheless important) additional capital to invest in the stock. However, given the controlling nature of the national HRA subsidy system, this is not a solution to historic under-investment.
- 117** The recent pilot introduction of local area agreements (LAAs)<sup>I</sup> by government, as recommended by an earlier Audit Commission study *People, Places and Prosperity* (Ref. 9), is a further move towards a more trusting and mature relationship between government and councils. However, none of the current pilot LAAs focuses on any aspects of the local housing agenda.
- 118** The national approach to council housing appears increasingly inappropriate. The system is complex and few people understand how resources are determined and how, or indeed why, they are distributed. While central oversight may be necessary it does not differentiate between good and poor performers.
- 119** Council housing may be self-financing at a national level, but the ongoing transfer of stock out of the system by contributing local authorities means that the medium-term

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<sup>I</sup> LAAs are an approach being piloted by government to join public services more effectively and allow greater flexibility for local authorities.

sustainability of the system is in serious question. The cross-subsidy between authorities switches income from supporting often necessary investment in one locality to that in another area, where it may still be insufficient to meet the total local investment needs.

**120** The current system means that in many areas, local authorities' tenants, on low incomes, are subsidising services to tenants who may also be on low incomes in other local authorities. This is in contrast with other government-initiated investment programmes, which make significant demands on the exchequer and therefore on national taxation.

**121** This leads the Commission to the following conclusions:

- That the current council housing subsidy system does not enable local accountability for the use of resources at a local level, since almost all key resource decisions, other than whether to stay in or transfer out of the system, are made by government (principle 1).
- That the system recognises cost efficiency but does not specifically encourage or reward high performance. The way that the system provides ongoing support for outstanding debt could be regarded as perverse (principle 2).
- That the introduction of business planning and the requirement to secure continuous improvement in services to customers has had a positive impact on services. However, the failure of the system to recognise the different market situations faced by local authorities is a weakness, as is the absence of actual stock condition as a central consideration (principle 3).
- Tenants are unlikely to see a clear relationship between the rents they are charged and the services they receive. For example, council tenants in the eastern region on average are currently paying £14 per week through their rents to support housing costs elsewhere, while those in London are receiving a £15 per week subsidy from tenants in other parts of the country. In addition, it is apparent that some of the things most desired by tenants, such as spending on external common areas to design out crime, are not covered by the Decent Homes Standard and hence not provided for within the national funding system, which focuses on property-related costs. Other programmes and initiatives will support some of these aspirations at a point in time and in some localities, but not on an ongoing or consistent basis (principle 4).

- Eighty-two per cent of housing authorities, managing 63 per cent of council housing stock, do not receive subsidy but have to make contributions to the national system out of their rent income. This negative housing subsidy amounts to £630 million per annum. The government assumes that achievement of the Decent Homes Standard will be funded from capital expenditure rather than revenue. But there is no ongoing public policy link between recommendations for capital allocations by regional housing boards and the state of local authority housing stock. So at present, although most authorities are working towards and some have already found, a route to achieving the standard, several authorities seem destined to miss the Decent Homes target, despite the extra resources made available within the system. Meanwhile, the asset and income base is diminishing as stock transfers reduce the number of tenants paying rents in excess of the amount needed to fund expenditure on their homes. So ultimately, the current £630 million contribution will need to be met by other means (principle 5).
- The revised system of housing rents and subsidy aims to be fairer because it takes account of local incomes, costs and property characteristics. But it does not fully reflect historic investment decisions and the current state of housing stock. And while housing rents are rising in real terms in all areas, in most areas this will not result in extra spending on services. The reforms also aim to ensure achievement of the Decent Homes Standard. But the subsidy being received from tenants elsewhere may not be sufficient to fund the necessary investment and service needs of a number of urban areas. Although in revenue terms the system has been self-financing nationally, a substantial repairs and maintenance backlog persists. This problem is particularly acute in London and can only be solved by substantial capital investment. The system does not support self-determination and is a barrier to the involvement of tenants because of its complexity (principle 6).

**122** The system of council house finance gives mixed messages to local authorities and their tenants about whether responsibility for the ownership and management of the service lies at the national or at the local level. Although referred to as ‘council housing’, given the way the system gives control to government it might now be more accurate to use the term ‘national’ housing.

## Recommendations

### Issues relevant to the government

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This report considers the impact of the system of financing council housing on the government's objectives for council housing.

It is written in the context of a national policy framework that arguably accords a higher priority to housing than at any time since the 1950s and 1960s. It makes two key recommendations to government to ensure greater fairness and transparency in the financing of council housing.

### We recommend that:

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#### **1. The government should review the council housing subsidy system, considering the following matters:**

- releasing from the system those authorities that can be self-financing, linked with high performance;
- giving a specific focus on solutions for those authorities that currently rely heavily on the system;
- ensuring that any re-designed system incorporates the six principles identified by the Commission in this study; and
- pending any reform of the system, the government should produce an annual report on the national Housing Revenue Account (HRA) to improve accountability.

**2. The government should consider how the local HRA could reflect broader landlord costs, not just those associated with HRA dwellings.** This would produce a better match between national priorities and local choice, result in greater equity between local authority and housing association tenants and support the government's liveability agenda.

### **Issues relevant to regional housing boards**

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- Regional housing boards (and their successors) have the potential to influence local authorities' achievement of Decent Homes, through their determination of capital allowances. In order to promote the most stable funding environment, the allocations policy should be made as clear as possible, taking account of government priorities that local authorities are required to deliver.

### **Issues relevant to local authorities**

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- Local authorities should be working towards achieving a local Decent Homes Standard, which is relevant to the local social housing market and may go beyond that set by the government.
- Local authorities should continue to ensure that they are making maximum use of all available opportunities to manage their actual income, for example, by ensuring that tenants and leaseholders are charged correctly for services and collecting a high proportion of rents and other charges.
- Some councils will need to restructure housing services because of recent changes to resource distribution. Tenants should be involved in decisions relating to new service priorities to ensure that changes are most effective.

### **Next steps for the Audit Commission**

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- Recent changes in housing finance policy have underlined the importance of continuing to assess the quality of services from the user perspective, since council tenants pay the full cost of housing services collectively.

- Local financial accountability is limited because of the redistribution of locally raised revenue within the national HRA. When assessing value for money, the Commission's auditors and inspectors will judge the economy, efficiency and effectiveness of the organisation itself, as well as the value for money of outcomes for service users.
- When assessing value for money, credit will be given for local initiatives that address the underlying factors that contribute to high expenditure identified in the funding formulae, such as tenancy turnover and vandalism.
- Inspections and other assessments need to reflect the true level of resources available to a housing organisation. This, together with their efficiency, will be built into all judgements.
- The information flows that support the system are insufficient to consistently inform decision makers and stakeholders. The Commission will bring forward its work on the quality of housing information to begin in 2005 rather than 2006, as originally set out in our Strategic Plan.

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# Appendix 1

## Recent legislation regarding the housing subsidy system

### Primary legislation

Legislation	Covers
Housing Act 1980 – Section 96 to 101	New system of housing subsidy introduced consisting of: (a) base amount (BA) – legacy of previous system in year 1 and then the previous years figure in future calculations; (b) housing costs differential (HCD) – difference in reckonable expenditure year on year; and (c) local contribution differential (LCD) – difference in reckonable income year on year. Calculated by using the formula BA+HCD-LCD
Housing Act 1985 – Section 421 to 427	No major changes. Includes use of determinations to formally set (b) and (c) above.
Local Government and Housing Act 1989: Part IV Housing Finance (sections 79-87)	Payment of housing subsidy to local housing authorities is now made according to determination with the formula being removed from the primary legislation and included in the determination. 1990-91 is the first year of a notional HRA system.
Housing Act 1996	The Housing Act 1996 introduced a clause for the Secretary of State to make a final decision on the amount of subsidy payable in a year as soon after the end of year as possible. Any under or overpayments will then be based on the final figure.
Local Government Act 2003	The 2003 Act amended the 1989 Act to give greater discretion to the appropriate person (the term appropriate person has replaced Secretary of State throughout this legislation) regarding the factors to be taken into consideration when calculating housing subsidy.

Legislation	Covers
	<p>In addition, the 2003 Act made the necessary amendments to the 1989 Act so that any negative subsidy is paid over to the appropriate person rather than offset against rent rebate subsidy. This follows the removal of rent rebate expenditure (and associated subsidy) from the HRA.</p>

Under the 1989 Local Government and Housing Act, annual determinations of subsidy, including revisions to allowances, weightings and methodology, have been issued by government to all stock-holding councils every year since February 1990 – 16 in total to date.

## Appendix 2

### Regional rent and housing benefit statistics

Region	Average rent		Housing benefit		
	Local authority 2003/04 (£)	Housing association 2003/04 (£)	Number of local authority recipients May 2003 (000s)	Number of local authority dwellings* 31 March 2003 (000s)	Percentage of local authority tenants on housing benefit (%)
North East	42.11	48.83	130	207	62.8
North West	46.56	51.58	202	326	62.0
Yorks & the Humber	42.55	50.41	201	344	58.4
East Midlands	44.44	52.51	133	226	58.8
West Midlands	47.34	52.39	164	257	63.8
East	52.47	60.50	131	231	56.7
London	65.08	69.86	316	500	63.2
South East	57.57	66.68	126	221	57.0
South West	48.77	58.34	88	146	60.3
<b>England</b>	<b>50.96</b>	<b>58.23</b>	<b>1,491</b>	<b>2,457</b>	<b>60.7</b>
Source	A	A	B	A	

**\*Note:** Figures include local authority dwellings vacant as at 1 March 2003.

**Source A:** National Statistics: Housing Statistics 2004

**Source B:** UK Housing Review 2004/05 from Department of Work and Pensions: Housing Benefit and Council Tax Benefit Summary Statistics

# Appendix 3

## Glossary of terms

### **Arms Length Management Organisation (ALMO)**

A new organisation with its own independent board established by a local authority to manage and maintain whole or part of its housing stock.

### **Comprehensive Performance Assessment (CPA)**

An assessment of the performance of all local authorities in England. There are different models for county councils and single tier authorities (London boroughs, unitary and metropolitan councils) and for district councils.

### **Housing Revenue Account (HRA)**

The statutory account required to be maintained by all stock-holding local authorities covering all income and expenditure relating to the management and maintenance of council housing within their district.

### **Housing Investment Programme (HIP)**

The former programme of investment in housing undertaken by councils with support from government, now replaced by the introduction of Major Repairs Allowance and Regional Housing Board capital allocations.

### **Local Area Agreements (LAAs)**

A pilot approach by government to join up public services more effectively at a local level through a single revenue funding stream, allowing more flexibility to local authorities in delivering both national and local priorities.

### **Large Scale Voluntary Transfer (LSVT)**

The transfer of all housing stock, following a positive vote by tenants, from a local authority to an existing, or newly established housing association.

### **Major Repairs Allowance (MRA)**

A financial provision, calculated by government, to enable local authorities to maintain their housing stock in its present condition.

### **Private Finance Initiative (PFI)**

The provision and/or ongoing maintenance of an asset by a private supplier in exchange for payments by the authority for the term of the contract. In council housing the local authority will receive subsidy from government in the form of an annual allowance.

### **Revenue Contribution to Capital Outlay (RCCO)**

The transfer of surplus revenue, having accounted for current expenditure, into a capital resource to pay for major investment.

### **Right to Buy (RTB)**

The right, under certain conditions, for local authority tenants to purchase their current council home with a discount.

### **Tenanted Market Value (TMV)**

The value placed on council housing stock when subject to a stock transfer. This takes into account that nearly all the stock is subject to an ongoing secure tenancy, which reduces its price.



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