Developing
Local Authority
Housing
Strategies
Developing Local Authority Housing Strategies
Preface

The Audit Commission has already examined and reported on a number of important aspects of the delivery of housing services. In *Managing the Crisis in Council Housing* it reported on aspects of housing management; in *Improving Council House Maintenance* it dealt with housing maintenance; in *Housing the Homeless: The Local Authority Role* it examined the problem of homelessness. A current study is examining the processing of housing benefit.

All of these areas are interdependent and form part of a local authority's strategy for housing. This report examines that strategic role and the efficiency and effectiveness of local authorities in their use of the various initiatives open to them. In the light of these findings local authority housing strategies will be examined across England and Wales through local value for money audits in 1992.

Local strategies are strongly influenced by national policy as it affects all forms of housing provision. The tax regime, in particular mortgage income tax relief, interest rates, the levels of housing benefit and the general well-being of the economy all affect individual behaviour and the need for intervention in the housing market. These issues are outside the Commission's remit but they have a significant effect upon the context for local authority housing strategies.

Local authorities should begin with a clear assessment of local need and see their own strategies as part of a broader set of social housing policies. So this report first describes the scale of the housing problem and the particular role local authorities can play in its resolution. It goes on to examine the extent to which improvements in efficiency and effectiveness at the local level can improve matters. Finally, the implications for central government are considered.

The study team, under the direction of Doug Edmonds, comprised Paul Smith and Chris Rockey of the Audit Commission and an independent consultant, Geoffrey Randall. An advisory group drawn from the local authority associations and their advisers met throughout the study. The Commission is grateful for their help.

The research for the study included analyses of national data, fieldwork in 14 authorities and a questionnaire which was returned by 106 authorities (18 in London, 31 in Metropolitan and 'Big Eleven' Districts, and 57 in other Shire Districts). CSL Consultants also provided advice on the various enabling initiatives that are open to local authorities and Derek Hudson, of DC Hudson & Partner, carried out a study of rural housing in Kent. Advice on the different situation in Wales was provided by Professor Peter Williams, of the University of Wales, and Martin Ward.
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Summary

The local authority housing role is changing fast. Local government is no longer the prime provider of new social housing. Indeed, some argue that the era of the 'political landlord' is over. New capital funding is increasingly channelled through the Housing Corporation and housing associations. But councils still own and manage over four million dwellings and have explicit duties towards homeless people, together with a range of other powers to intervene in the housing market. They must still develop a housing strategy, but one which recognises the changed legislative and financial environment. Many authorities have not yet done so. A strategy should begin with an assessment of housing need in the area and of the state of the housing stock (broadly defined) available to meet it.

Nationally, the need for further social provision is substantial, as evidenced by the continuing rise in the number of statutorily homeless people in temporary accommodation which now stands at 60,000 households. Considerable uncertainty surrounds projections in this area, but the number of new households is expected to rise by an average of around 150,000 per annum over the next ten years. On past trends the private sector could be expected to provide an average of 130,000 units per annum. But when account is taken of demolitions, voids, the backlog of homelessness and families who currently share accommodation but who need separate housing, the housing 'gap' is likely to be rather larger than 20,000. Plausible estimates put that figure at somewhere between 60 and 90,000 a year. The Housing Corporation plans to boost its output to between 46,300 and 57,700 units by 1994-95 and this, together with up to 5,000 dwellings which local authorities build themselves or fund through housing associations will reduce the shortfall considerably, but it is unlikely to remove it completely. Before the Corporation's output reaches its peak this gap will be higher.

Local authorities retain primary responsibility for the maintenance of council housing and for some aspects of support for the private sector. But they are ill resourced to discharge these responsibilities. Local authority capital expenditure peaked at £5 billion in 1989-90, the last year of the old system of capital controls, which allowed local authorities to use 100 per cent of their capital receipts for maintenance purposes. Under current rules which allow 25 per cent of receipts from house sales to be used, and with a decline in the total value of receipts, local authority expenditure is set to fall to £2.6 billion in 1992-93. Even if local authorities were to concentrate solely on the maintenance of their own housing stock and on improvement grants to the private sector, there would still be about a £1 billion gap between historic expenditure trends and the projected resources.

In fact there are no reliable national data on local authority stock condition. The last survey was in 1985 when a maintenance backlog of £11 billion was reported. This may now have fallen to £7 billion (at 1985 prices). But maintenance requirements increase as the stock ages and 80 per cent of the council stock is over 20 years old. Even those local authorities that have transferred all of their stock through large scale voluntary transfers (generally thought to be authorities with
stock in good condition) have reserved about £2,000 per dwelling for 'catch-up' repairs. For those authorities in the North where resources have generally been less because of lower capital receipts and lower rents, the backlogs of maintenance are likely to be greater. Those authorities with a significant proportion of their stock built by non traditional methods will also have a higher repair bill.

Effective local strategies can help to reduce these gaps by directing limited resources to best effect and by involving others in the provision and maintenance of housing. Authorities should begin with an examination of the management of their own stock. They could further reduce the period between lettings and so reduce their void rates. They should check their existing occupiers to identify unlicensed occupation. A further 6,500 lettings could be achieved in this way alone. Local authorities should be encouraged to bring long term voids back into use and provide funds for cash incentives to existing tenants to move to the private sector. In total these measures could make up to 37,000 new lettings available over two years.

Local activity is limited by the local authority's capital spending power. Local authorities should examine their options in this light. Steps to reduce demand, such as housing advice and mortgage rescue are likely to be cost effective. Scarce property can be freed by various transfer incentives and local spending power can be stretched by shared ownership schemes. Similarly, the maintenance problems of run-down estates may require housing associations and the private sector to contribute to their solution. Such activities are at the core of the enabling role and will go some way to closing the gaps that this report identifies.

Even so, problems will remain. The great majority of homeless households in temporary accommodation are in London and the South East. The Housing Corporation has progressively targeted more of its allocations to that region but still less than half of new housing association dwellings are in these areas.

Local authorities could bridge the £1 billion per annum gap in their own resources if they raised rents by an average of £5.00 per week. Under the present subsidy system, subsidy is based on notional rents and any excess can be used to finance further expenditure, but central government is not committed to this regime in the long term. If subsidies were based on actual rents, income from rent increases would be clawed back. Fear of such an adjustment inhibits local authorities' use of this solution.

Up to 130 local authorities are believed to be examining large scale voluntary transfers of their stock to newly formed housing associations as a solution to their problems. Transfers of stock open up the possibility of more private investment, but there have been difficulties and there are costs as well as benefits. About 70 per cent of the higher rents for new tenants will be paid for by housing benefit.

The present system of assessing needs and allocating resources could be improved to ensure better targeting of capital investment. The remaining disincentives to the efficient use of resources by local authorities could be removed. But even the most optimistic forecast of social housing output still implies a shortfall of 12,000 social lettings each year, and little progress can be expected in improving either the public or the private sector housing stock.
Introduction

1. The aim of Government housing policy is that 'a decent home should be within reach of every family'. (Ref. 1). This has been the objective of successive governments throughout this century. They have pursued it through a mixture of controls and subsidies on both the supply and demand sides, along with some direct state provision, to supplement the normal working of the housing market. But the extent and mix of controls, subsidies and state provision have been the subject of wide political disagreement.

2. Subsidies can either be on properties (for example subsidies for the provision of rented housing by local authorities and housing associations) or to individuals (for example means tested housing benefit on rent payments). Tax relief on mortgage interest payments contains elements of both types of subsidy. It is general because it is in principle available to all, but it is also a personal subsidy on the consumption rather than the production of housing. Many commentators argue that personal subsidies are preferable to stock subsidies because they offer at least the possibility of more effective targeting to those in greatest need (Ref. 2). However, in the short to medium term, subsidies to production and direct intervention are necessary to boost the output of housing. Otherwise the cost of housing would inflate because of the relative inelasticity of supply in the housing market.

3. The present regime of housing finance sets the context for the local authority role. Housing Benefit subsidy and mortgage interest tax relief directly affect the housing market. More generally the market is affected by the economic cycle, through the level and distribution of disposable incomes, interest rates and consumer confidence. Other commentators have considered these issues, but they lie outside the Commission's remit which is to comment on the local authorities' role and the effect that the implementation of government policy has upon that role.

4. Local authorities have a statutory duty to review the housing needs of their area but wide discretion in their choice of solutions. Their housing strategies must address three programme areas: rehousing (i.e. to provide for people in need of new or better housing), maintaining the local authority stock in good condition and supporting improvements to the physical conditions of the private sector. Traditionally, local authorities (LAs) have seen their role as building managing and maintaining council houses for rent, administering the private sector grant system, and allocating lettings to the most needy applicants. Housing associations (HAs) were seen as complementary to the role of the main provider, filling gaps such as special needs housing or the rehabilitation of inner-city property — a useful role, but small scale.

5. National housing policy has sought to move LAs towards a new strategic housing role. The White Paper Housing: The Government's Proposals (Sept 1987) described a 'strategic role' for local authorities, to include:
— reviewing and improving the quality of local housing strategies;
— identifying housing needs and demands;
— encouraging innovative methods of provision by others;
— working closely with housing associations, private landlords, developers, building societies and other providers of finance.

6. It also encouraged LAs to see themselves principally as enablers rather than direct providers of housing services. Guidance notes accompanying the 1990 and 1991 Housing Investment Programme (HIP) rounds gave more detail. Included were recommendations to encourage LAs to make land available; to support schemes by HAs and private developers; to promote low cost outright sale or shared ownership; to offer cash incentives to tenants to buy privately; to build under licence to promote private letting; to improve tenant participation and develop closer co-operation with HAs on allocations and other matters.

7. This report examines the national position in each of the three programme areas before describing how best local authorities can assess their local circumstances and formulate local strategies and detailed plans in response to the needs of their area.

8. Most local authorities face a gap between local demands and the resources that are available. Many are experiencing a growing number of homeless households and have insufficient resources to enable them to maintain their own stock in good condition and to support necessary work in the private sector. Even when they make full use of their enabling role, gaps will usually remain. The final chapter considers what further action could be taken at the national level to mitigate these problems.
1. The National Position

HOUSING SUPPLY, DEMANDS AND NEEDS
THE DEMAND FOR AND SUPPLY OF PRIVATE SECTOR HOUSING

9. The encouragement of home ownership has been a major objective of national policy. A number of reliefs and subsidies stimulate this growth. The most important is mortgage interest tax relief (MITR) which cost £7.8 billion in the UK in 1990-91 and is projected to cost £9.34 billion by 1994-95 (Ref. 2). MITR aims to help people to become home owners, (though some commentators argue that the resultant increase in purchasing power contributes to house price inflation). It also makes private renting relatively unattractive to both landlords and tenants. This has accelerated the decline of the private rented sector and encouraged the transfer of stock into owner occupation.

10. The next most important incentive to home ownership is the right-to-buy. Tenants who purchase their council house can obtain discounts of up to 60 per cent (70 per cent for flats). A third of the growth in owner occupation in the last ten years has come from such sales (Exhibit 1).

Exhibit 1
GROWTH IN OWNER-OCCUPATION
Council house sales have accounted for one third of the growth in owner-occupation

![Graph showing growth in owner-occupation](image)

Note: ‘Other’ growth includes sale of private rented dwellings, conversions and demolitions
Source: Housing and Construction Statistics, Welsh Housing Statistics

11. However, the expansion of owner occupation ultimately is limited by the level of effective demand. Not everyone wishes to be a home owner and not all of those who wish to purchase can afford to do so. In the short term, access is affected by house prices and interest rates. But over a run of years house price/income ratios tend to fluctuate around a constant long-term average (Exhibit 2, overleaf). However, there are long-term differences in this ratio in
House price income ratios tend to fluctuate around a constant long-term average. It is higher in London and the South compared to the North of England and Wales. Higher prices are caused by a restricted supply of building land, which is itself often the result of tight planning controls. This increases demand for social housing, which also becomes more expensive to provide. In some areas a half or more of new households may be unable to afford to buy (Ref. 3).

12. The size of the private rented sector has been declining for most of the century. Before the First World War around 90 per cent of households lived in privately rented accommodation. Since then it has declined both in absolute numbers and as a proportion of the stock, even during those periods when the market has been deregulated. Today it forms less than eight per cent of the stock. Successive moves to deregulate the market and to give tax incentives to investors through the Business Expansion Scheme (which is now scheduled to end in 1993) have sought to reverse this decline. The private rented market may now have stabilised because of these changes and the stagnant owner occupied market (Ref. 4).

THE DEMAND FOR SOCIAL HOUSING

13. The private market alone is unable without subsidies to meet the objective of providing a decent home for every family. So the provision of social housing for those households who cannot afford the cost of housing of an acceptable standard in the private sector remains important in national policy. Currently the total demand for social housing is not being met and so 'need' has to be prioritised. Definitions of need are value judgements, but a family with children without secure accommodation would usually be included. In contrast, single young people living at home with their parents and with no serious family difficulties would probably not be included, even if they wished to find a home of their own. The point on the spectrum at which the definition of need is drawn is a matter of judgement and is partly conditioned by the available resources. But defining the level of need which is to be met and therefore the demand for social housing is essential to the determination of housing programmes at a national and local level.
14. Such forecasts are not easy. The last projections of housing supply and demand that were made by central Government were part of the 1977 housing policy review and covered the period 1976-1986. It was made clear at the time that the calculations involved a number of assumptions about household formation and housing production. The projections of public house building activity were based on past trends and were not targets for future activity or for public expenditure. In the event the number of new households was underestimated and the level of new house building was overestimated. (Ref. 5).

15. Forecasts of housing supply and demand depend on assumptions about a range of key variables. Some of them are easier to predict than others. Of particular importance are the rate of household formation, the volume of new house building by the private sector (which is in turn dependent on the level of effective demand) the treatment of unfit dwellings (how many will be demolished and need to be replaced) and the numbers of concealed householders (those currently sharing with others) who 'need' to be rehoused. Exhibit 3 shows the Commission's forecast. The assumptions behind it are described in Appendix 1.

Exhibit 3
NEW HOUSING DEMAND AND SUPPLY
The Commission's forecast

<table>
<thead>
<tr>
<th>Source of estimates:</th>
<th>ENGLAND (thousands)</th>
<th>WALES (thousands)</th>
</tr>
</thead>
<tbody>
<tr>
<td>DOE and Welsh Office projections</td>
<td>-10% Central projection +10% Central projection</td>
<td></td>
</tr>
<tr>
<td>Household formation</td>
<td>1,410</td>
<td>1,567</td>
</tr>
<tr>
<td>Concealed families (married and lone parents)</td>
<td>+260</td>
<td>+24</td>
</tr>
<tr>
<td>Households in B&amp;B and hostels</td>
<td>1,694</td>
<td>1,851</td>
</tr>
<tr>
<td>Total Extra Demand</td>
<td>1,376</td>
<td>-200</td>
</tr>
<tr>
<td>Total Extra Supply</td>
<td>1,129</td>
<td>66.4</td>
</tr>
<tr>
<td>Social Housing Needed</td>
<td>565</td>
<td>722</td>
</tr>
<tr>
<td>2% vacancy in social housing</td>
<td>+11</td>
<td>+14</td>
</tr>
<tr>
<td>Total Needed</td>
<td>576</td>
<td>736</td>
</tr>
<tr>
<td>Total Per Annum</td>
<td>58</td>
<td>74</td>
</tr>
<tr>
<td>Source of estimates:</td>
<td>DOE and Welsh Office projections</td>
<td>Census</td>
</tr>
<tr>
<td>Households</td>
<td>Current figures for private sector; Government target figure for social sector</td>
<td></td>
</tr>
<tr>
<td>Concealed families</td>
<td>Based on 1981-90 completions</td>
<td></td>
</tr>
<tr>
<td>Vacancies</td>
<td>Based on 1981-90 slum clearance and other stock losses</td>
<td></td>
</tr>
</tbody>
</table>
16. Such projections are very sensitive to changes to a number of key variables which historically have been difficult to predict. The accuracy of the DOE’s household projections is particularly important. In 1980 the projected increase for England between 1981 and 1990 was 1,419,000 whereas in 1990 it was estimated to have been 1,711,000 over the same period (an under-estimate of 17 per cent). Just a plus or minus 10 per cent variation in the current projection would give a range on the required provision of social housing over the next ten year period of between 58,000 and 90,000 per year. And household composition is also important. Over the ten year period two-thirds of the growth in households is for single person households between thirty years old and pensionable age. But while such households are not usually legally entitled to new local authority tenancies (because they are rarely classifiable as statutorily homeless) they can be eligible to retain their tenancy, to be rehoused from the waiting list or be accommodated by a housing association. Many others will purchase on the open market.

17. The Commission’s forecast of supply is based on actual activity during 1981-1990. It does not take account of the recent downturn in private sector completions. The actual levels during the next decade will depend on the complex interaction of real incomes, interest rates, taxation and consumer confidence. The forecast also assumes that the average levels of demolitions and closures will remain as for 1981-90 although such losses fell to 15,000 per annum in the last five years of the period. However the ten year annual average of 20,000 implies a renewal rate of only 0.1 per cent per year.

18. A number of other factors will affect the actual balance of supply and demand. The forecast does not allow for any growth in supply due to conversions or changes to void rates, but it also assumes that the number of second homes will not increase. The continued development of care in the community also will have some effect upon household demand.

19. The central projection in Exhibit 3 is therefore a need for about 740,000 new homes (some of which are already planned in existing programmes) over the next ten years in the social rented sector. A number of other projections have been made in the past two years. These have produced a range of estimates of the need for social housing which are generally higher (Table 1), though the Government does not produce its own forecast.

Table 1

<table>
<thead>
<tr>
<th>Source</th>
<th>Period covered</th>
<th>Annual requirement for housing</th>
</tr>
</thead>
<tbody>
<tr>
<td>National Housing Forum (Ref. 6)</td>
<td>1987 – 2001</td>
<td>157,000 – 290,000 (all dwellings)</td>
</tr>
<tr>
<td>Association of District Councils (Ref. 3)</td>
<td>1990</td>
<td>75,000 – 115,000 (all low cost dwellings)</td>
</tr>
<tr>
<td>Kleinman and Whitehead (Ref. 7)</td>
<td>1991 – 2001</td>
<td>38,000 – 122,000 (Social housing)</td>
</tr>
</tbody>
</table>

20. Such projections are inevitably subject to a margin of error. But without some effort to develop a forecast it is difficult or impossible to make informed decisions about either the total or the distribution of public investment in housing. In the Commission’s view it would be preferable for the DOE and the Welsh Office to take the lead in so doing. The results from the 1991 census would form a suitable basis for such work. But while there inevitably will be debate
about the size of any future gap there is evidence from other sources to show that a shortfall in social housing provision currently exists. The number of homeless households in temporary accommodation is rising and there are still a considerable number of 'concealed' married couple and one-parent households who are currently sharing accommodation.

THE SUPPLY OF SOCIAL HOUSING

21. Since 1985 an average of 28,000 new housing association and local authority properties have been built each year in England. In Wales, the figure is currently about 3,000 per annum. The Housing Corporation's Approved Development Programme shows a substantial increase in HA completions. These are expected to rise to between 46,300 and 57,700 in 1994-95. But new construction is only a part of the picture. Just as significant is the number of relettings becoming available, which in turn depends on the size of the stock and the turnover rate.

22. The total stock of social rented housing declined by over a million homes in the 1980s, mainly because of right-to-buy sales. These reductions have far exceeded the construction of new council housing (Exhibit 4). But the decline in the total number of lettings has been less dramatic than the fall in stock size, because of an unforeseen increase in turnover. Even so, the number of local authority lettings has declined from 280,000 in 1977-78 to 230,000 in 1989-90. This decline has been offset only partially by the growth in housing association lettings (Exhibit 5, overleaf).

Exhibit 4
LOSSES IN COUNCIL STOCK
Losses far exceed the construction of new council housing

Source: House & Construction Statistics

23. The 1980s saw significant changes not only in the size of the local authority stock, but also in its composition. The great majority of stock sold has consisted of family sized properties. In addition, the emphasis of councils' building programmes has been on elderly persons dwellings, partly because the DOE discourages the inclusion of family housing in HIP bids and partly because such properties used to be exempt from the right-to-buy. The housing association building programme hitherto has laid emphasis on elderly persons accommodation. As a result, in both
The decline in LA new build has been offset only partially by higher turnover and housing association lettings. Source: DOE HIP Returns, Housing Corporation Annual Reports, AC estimates. The proportion of elderly persons accommodation has risen (Exhibit 6).

24. The type of lettings becoming available has also changed. There is a higher turnover in single person and elderly persons tenancies and so these have formed a growing share of lettings. By contrast, the pressure of demand in most areas has been from families. However, a regional analysis is necessary before the full pattern of shortages can be identified.

25. There are wide regional variations in the availability of social rented housing. A higher proportion of the stock is social housing in the North of England than in the South outside London. The turnover is also higher. While over 60 lettings become available for every thousand council dwellings in the North each year, in London less than 50 relets per thousand dwellings are released. Homelessness reinforces this disparity. Statutory homeless acceptances per thousand LA dwellings are higher in London and the South, and therefore the lettings available to those on the waiting list show a wide regional variation (Exhibit 7, overleaf).

26. Waiting lists are a very inaccurate measure of needs. Some of those registered on lists no longer require council housing or have applied purely as a safeguard against possible future need. Others in severe need fail to register either through ignorance, or because they stand little or no chance of being housed, or because local eligibility restrictions prevent them from registering. However, there is no doubt that the mismatch between supply and demand is greater in the South.

27. The use of temporary accommodation for the homeless is by far the highest in London, followed by the rest of the South East (Exhibit 8, overleaf). The Commission’s report Housing the Homeless: the Local Authority Role recommended that, where the use of temporary accommodation was unavoidable, other options including private sector leasing be expanded thereby minimising or eliminating the use of B & B hotels. Authorities have made substantial progress in expanding other types of temporary accommodation, although the continuing growth in acceptances of homeless households has meant that the use of B&B has not decreased by the same amount. The
HOUSING FOR THE ELDERLY

The proportion of stock for the elderly has grown in both local authorities and housing associations.

By 1991, the proportion had increased in both sectors.

Source: DOE HIP Returns

Number of homeless households in temporary accommodation has risen from 13,000 to 60,000 between 1985 and 1991.

28. The shortages in London and the Southern regions have been recognised. The Housing Corporation programme has given special homelessness allocations to authorities under pressure and put increased weight on homelessness in the Generalised Needs Index (GNI)*. But the provision of an adequate number of homes is not the whole story. There are problems of the

* See Appendix 2 for an explanation of how the GNI works.
Exhibit 7

LOCAL AUTHORITY LETTINGS
The lettings available to those on the waiting list show a wide regional variation

Source: HIP returns (1990-91)

Exhibit 8

HOMELESS IN TEMPORARY ACCOMMODATION
The use of temporary accommodation is highest in London and the South East

Source: DOE data: Quarter 4 1991
REPAIR AND RENOVATION OF THE COUNCIL STOCK

29. At the national level, there is inadequate information about the expenditure necessary to maintain local authority housing. The last comprehensive national survey was carried out by the DOE in 1985. All local authorities in England were asked for detailed information on backlogs in their housing maintenance and improvement but their estimates were subject to a considerable degree of error. At that time few authorities had conducted accurate surveys of their stock to substantiate their estimates. Furthermore, the DOE was known to be considering greater expenditure in this area. Authorities therefore had an incentive to err on the high side. On the other hand, the lack of accurate survey data could well have meant that certain problems were not identified.

30. The results of the survey were summarised in the Commission's 1986 report Improving Council House Maintenance (Table 2). In total the estimated backlog was £18.8 billion of which £11 billion was for maintenance alone.

<table>
<thead>
<tr>
<th>Table 2 BACKLOG OF MAINTENANCE AND IMPROVEMENT (1985 prices)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Maintenance</td>
</tr>
<tr>
<td>-------------</td>
</tr>
<tr>
<td>£10.8bn</td>
</tr>
<tr>
<td>£2,400</td>
</tr>
</tbody>
</table>

Source: Audit Commission analysis of DOE Inquiry into Local Authority Stock Condition (1985).

31. Since then, because there have been very few demolitions and relatively small numbers of newly built properties, the average age of the council stock has increased. In 1985 65 per cent of the stock was more than 20 years old compared with 80 per cent in 1990.

32. The 1985 survey showed that the method of construction was an important determinant of maintenance needs – the average backlog of maintenance on dwellings of non-traditional construction being about £2,500 higher per dwelling than those of the same age built by traditional methods. But as dwellings age, more maintenance work is required and improvements are necessary. The Commission's analysis of the 1985 survey found that traditionally constructed houses built from 1919 to 1944 had an average backlog of maintenance and improvements of £6,000 per dwelling, whereas for those built after 1964 the backlog was only £2,000.

33. The Commission's report included a financial model which gave a broad estimate of the effect of an ageing stock on the need to replace various building elements. The model suggested that expenditure on programmed repairs needed to be £1.37 billion (£282 per dwelling) in 1986 and be increased to a total of about £1.71 billion (£352 per dwelling) for the period 1986-2000, all at 1985 prices. At today's prices, LAs should be spending £422 per dwelling. In comparison, estimated LA expenditure on programmed repairs was £144 per dwelling in 1985-86, £230 in 1988-89 and £294 in 1989-90, the peak year.
34. Local authority expenditure on the maintenance of its stock has risen substantially (Exhibit 9). Finance for maintenance to address the backlog has come from both revenue and capital. Capital expenditure on maintenance increased up until 1989-90, because an unintended consequence of the old system of capital controls was that authorities were able to use 100 per cent of their receipts from council house sales and other sources for maintenance, but not for other purposes such as building new homes. Expenditure was particularly high in 1989-90 because that was the last year of the old system of capital controls. Authorities sought to use all of their receipts before the new system limited their expenditure for whatever purpose to 25 per cent of receipts from sales under the right-to-buy and 50 per cent of other receipts.

Exhibit 9
TOTAL MAINTENANCE EXPENDITURE ON LA STOCK
Expenditure rose substantially, particularly in 1989-90

Source: CIPFA HRA Statistics

35. There is no detailed information on how this money was applied. Some of the increase may have been spent on jobbing repairs and have had little or no effect on the backlog. But if all of the increase in expenditure was used for programmed maintenance, as opposed to day to day or cyclical repairs, then the backlog would have been reduced by 23 per cent in Metropolitan Districts and by 39 per cent in the Shire Districts (Exhibit 10). Such calculations ignore the increased expenditure required because of the ageing of the stock. The cost of remedying defects which have occurred or worsened since 1985 must be added to the total backlog. Taking the 1985 survey and deducting subsequent expenditure suggests that the remaining backlog is £7 billion at 1985 prices; £8.5 billion at 1991 prices. This contrasts with an estimate of £4.3 billion (not including VAT and fees) resulting from a study commissioned by the DOE and based on a sample of 2,000 properties in 20 authorities (Ref. 8). But these estimates of backlog are not comparable. The surveyors in the most recent DOE survey were asked to estimate the cost of remedying only the immediate defects. For example, if a quarter of a roof needed replacing only this cost was allowed, whereas the best course of action might be to replace the whole roof. The costs of replacing elements reaching the end of their life and of modernising stock also were excluded.
36. The lack of accurate and comprehensive information on the condition of the local authority stock makes it difficult to allocate resources efficiently. In its Annual Report 1991 (Ref. 1) the DOE states that the current level of investment on renovating the council stock 'should be sufficient to maintain the stock in a reasonable condition', but does not produce any calculations to support this conclusion. The scores used in calculating the GNI (which determines how 40 percent of capital allocations are made to authorities - see Appendix 2) are based on factors such as the proportion of flats in the stock and the age profile. They do not take into account the actual condition of the stock or the means of construction. This results in a narrow range of scores both within and between English regions (Exhibit 11, overleaf). The only significant difference is for London, reflecting the higher unit cost of works. Maintenance of their own stock accounts for two thirds of authorities' capital expenditure, yet the lack of detailed information on stock condition means that the scores given in the GNI for this factor are likely to be only loosely related to actual needs.

37. In 1990, the DOE sought to collect detailed information from local authorities on the condition of council houses as a part of the HIP bids for 1991-92. However, only 40 per cent of authorities returned this part of the form to DOE. Since 40 per cent of authorities surveyed by the Commission had not carried out a comprehensive or even a representative survey of their own stock in the past five years (Table 3, overleaf), this may account for the absence of many returns. An additional limitation is that the information sought by DOE covers only the number of properties with defects within broad age bands; it does not produce estimates of the actual costs of carrying out the necessary work. More accurate data are essential for effective targeting of expenditure on maintenance. In Wales, the 1986 Welsh House Condition Survey was based on a sample that was large enough to provide estimates of repair costs for individual local authorities. These estimates are then used in their formula for local authority allocations.
GNI FACTORS FOR STOCK CONDITION
The ranges of scores is narrow – both within and between regions

Source: DOE, 1991-92

Table 3
LOCAL AUTHORITY SURVEYS
Local authorities who have carried out a survey of their stock over the past five years.

<table>
<thead>
<tr>
<th>Region</th>
<th>%</th>
<th>No of LAs responding</th>
</tr>
</thead>
<tbody>
<tr>
<td>London</td>
<td>50</td>
<td>18</td>
</tr>
<tr>
<td>Mets. + Big Eleven Shire Districts</td>
<td>55</td>
<td>31</td>
</tr>
<tr>
<td>Southern Shire Districts</td>
<td>70</td>
<td>24</td>
</tr>
<tr>
<td>Northern Shire Districts</td>
<td>60</td>
<td>33</td>
</tr>
<tr>
<td>All Authorities</td>
<td>60</td>
<td>106</td>
</tr>
</tbody>
</table>

Note: Throughout this report ‘Northern’ shire districts are defined as those in Wales, the East and West Midlands and all regions to the North. The South comprises the South-West, East Anglia and South East regions. All ‘big eleven’ shire districts are grouped with Metropolitan districts.

Source: Audit Commission Survey

RENOVATION OF THE PRIVATE SECTOR STOCK

38. The condition of council owned stock is not the only concern. Local authorities have a wide range of powers and duties aimed at improving the conditions of private sector properties. A recent Commission report Healthy Housing (Ref. 9) made detailed recommendations for the more efficient and effective use of these powers.

39. Local authority powers and duties were recently reformed substantially by the Local Government and Housing Act 1989. Major changes were made to the renovation grant system with the aim of targeting grants to people on the lowest incomes and those living in homes which are in the worst condition. When dealing with unfit properties, authorities were placed under a
new duty to decide on the most satisfactory course of action. At a strategic level, authorities are
now under a duty to consider housing conditions in the private sector at least annually. The DOE
has issued guidance on these duties (Ref. 10) which sets out in detail a strategic approach to
private sector improvement. The guidance covers the generation of options and means of
assessing them on economic, social and environmental grounds.

40. Public expenditure on private sector renovation fluctuated widely during the 1980s
(Exhibit 12). Private and public investment up to the mid 1980s reduced the problem of lack of
basic amenities (such as of bathrooms and internal WCs) to minimal proportions. But problems
of unfitness and disrepair have remained persistently high over the previous 15 years (Exhibit 13,
overleaf). A new English House Condition Survey (EHCS) was undertaken in 1991* and,
although there was a legal change in the definition of unfitness in 1989, it will be possible to
make an allowance for the change so that the continuity of the data series is preserved. It is
expected that the number of unfit properties will rise by at least 30-40 per cent as a result of the
change in definition.

Exhibit 12
RENOVATION GRANTS
Expenditure fluctuated widely during the 1980s

Source: Housing and Construction Statistics, England and Wales

41. Between 1981 and 1986, the number of unfit properties in England declined by an
average of only 17,000 a year. The level of grant-aided improvement activity has fallen since 1986
and it seems likely that the backlog of private unfit properties (on the pre 1990 statutory
definition) is around 550,000, of which around 350,000 are owner-occupied. These totals exclude
all privately-owned unfit properties which are vacant. Data from the EHCS suggest that at least
half of the owner-occupied properties would qualify for mandatory improvement grants, at an
average cost of £8,100. This implies a backlog of over £1.4 billion of potential claims. Not all will
claim, but there is a large pool of potential demand of which LAs and central government need
to take account.

* The Welsh Office delayed its 1991 survey because it wishes to ensure that it is compatible with the new grant regime.
Exhibit 13
PROGRESS IN IMPROVING HOUSING STOCK: ENGLAND (1971–1986)
The number of homes lacking amenities fell significantly; serious disrepair and unfitness remain a problem

Source: EHCS 1971 to 1986

42. The proportion of private sector stock varies widely between areas. The incidence of poor conditions in individual authority areas is more difficult to assess. Many authorities have only very limited knowledge of the state of the private stock in their area. The Commission's survey found that only 33 per cent had carried out a private house condition survey of external and internal conditions in the past five years. A further 23 per cent had carried out an external survey only. It seems likely that much of the data in HIP returns on private sector stock condition is subject to wide margins of error. Healthy Housing emphasised the need for more accurate local information on the extent and nature of poor conditions in the private sector stock.

43. Local authority activity on private sector renovation varies even after taking account of differences in stock profile. The total spent on renovation grants divided by all unfit private properties ranged from a median of £150 in London to £520 in the South East in 1990-91 (Exhibit 14). Healthy Housing also reported wide differences in the efficiency and effectiveness of the work of environmental health officers to improve poor conditions in the private sector.

44. Monitoring of the new renovation grant system by the DOE has revealed a substantial backlog of grant applications and a significant reduction in renovation work. Problems identified by authorities have included the reluctance of some owners to apply for a means-tested grant and the failure of the test of resources to take account of mortgage costs. Some applicants with large mortgage commitments cannot afford their share of the costs. On the local authority side, a fear of overwhelming demand for mandatory grants has led some authorities to do everything possible to deter applications, but at a national level these allocations have been underspent in the first two years, by £92m in 1990-91 and an estimated £57m in 1991-92. The DOE is now reviewing the system to assess whether any changes are needed.

* * *
Exhibit 14
PRIVATE SECTOR RENOVATION GRANTS
There was a wide variation in expenditure on renovation grants compared to the number of unfit properties in each area

Source: DOE, HIP Returns 1989-90

45. Nationally there is currently a shortfall in social rented housing together with serious remaining problems of poor conditions in both local authority and private sector housing stocks. But funding is set to fall below previous levels of expenditure on stock renovation and grants to the private sector (Exhibit 15). The next chapter examines how more efficient and effective

Exhibit 15
CAPITAL EXPENDITURE (Out-turn prices)
LA resources are set to fall below previous levels of spending on stock and renovation grants

Source: HIP returns; DOE Annual Report 1992; ADC, AMA Surveys
management by local authorities could help to make better use of resources and thereby help to close the gaps that have been identified.

46. The position in Wales is significantly different. A slightly higher proportion of their stock is owner-occupied (72 per cent compared to 68 per cent in England) and it is in significantly worse condition. (See Appendix 3). The Welsh Office distributes its support for grants separately from allocations to local authorities for improvement of their own stock. Special financial arrangements have applied to ensure that local authorities have appropriate levels of resources to provide mandatory grants for private sector stock improvement.
2. Efficiency and Effectiveness at the Local Level

47. Local authorities in similar circumstances have reacted differently to the government's initiatives. Many feel that the forced removal of their role as direct creators of new provision is unnecessary and wasteful, particularly in authorities well-equipped to provide an efficient building programme, and where the pressures of homelessness and housing have been steadily mounting. For them, the term 'enabling' is seen as having too little substance to be credible. Other authorities have reacted differently. While not necessarily welcoming the changes, they have secured fresh investment in their area by playing the game by the new rules. A third group of authorities have fully embraced the new approach and in 17 instances have transferred almost all their stock to a housing association.

48. It is timely for LAs to undertake a systematic and fundamental reappraisal of their role, and that of other local housing agencies, to determine how housing services in their area can best be provided. LAs will not be alone in making adjustments. Housing associations too have to come to terms with the growing demands of their new role.

49. The process of preparing strategies is not new to LAs. For some years they have prepared HIP submissions incorporating a strategic assessment of needs and programmes. But the quality of these strategies varies. Some have been excellent while others have overlooked valuable options thereby limiting their opportunities. Others have failed to readjust the balance of their programmes in the face of changing national priorities. Managing housing strategies is a long term task. Local authorities will always be committed to a substantial inheritance of previous projects. But through the HIP system, driven by local reassessments and changing government priorities, authorities can make progressive adjustments to the balance of their housing investment.

50. Many authorities have identified corporate objectives which have a strong influence on their housing strategies. For example, Knowsley's main objective is to arrest the depopulation of the Borough. Its housing objectives therefore include broadening the tenure base by encouraging new building by the private sector and promoting right-to-buy sales. Stock regeneration is being linked with measures aimed at local economic regeneration, which include improvements to shopping areas. Birmingham City Council gives a corporate emphasis to particular areas of the city. So its choice of renewal areas complements its focus of economic regeneration, social services and other activities. Other local authorities have land use objectives which limit housing activity. In many southern shire districts, planning objectives relating to open space and conservation often conflict with housing objectives.
51. But objectives must be translated into practical action (Exhibit 16). The following sections set out a systematic and detailed description of good practice in this function. Decisions

Exhibit 16
STRATEGY DEVELOPMENT
Objectives must be translated into practical action
associated with the 1991 HIP round have enforced the need for a sound strategy. Ministers exercised greater discretion through the DOE's Regional Controllers because Ministers did not consider that 'the current allocation methods deliver the quality of service to tenants which they are seeking' (Ref. 11). In deciding on discretionary allocations, the DOE looked for 'specific, quantified proposals...framed in the context of a well-defined housing strategy for the area...with a realistic view of the resources likely to be available'. Thus a strategy judged to be poor by the DOE lost an authority capital spending power as well as affecting its internal efficiency. In Wales, discretionary allocations have been linked to the quality of LAs' Housing Strategy and Operational Plans (HSOPs) for some time. The Welsh Office also holds separate annual review meetings with individual LAs in order to discuss these plans in detail.

A: IDENTIFYING LOCAL NEEDS

52. A knowledge of local needs is an essential foundation of an effective housing strategy. This knowledge must cover all three programme areas: rehousing, LA stock condition and the private sector. Local authorities are expected to facilitate the contribution of many agencies and must evaluate a broad set of options.

53. This more complex task requires a more sophisticated range of information systems. But fieldwork suggests that these systems have not been adapted as fast as is necessary, and that some LAs do not have all the information they require to support their decision making processes. LAs need to extract data for strategic purposes from their internal operational systems. They also need to exploit further the potential of external information sources. The information requirements of each of the three programme areas are examined in turn.

REHOUSING NEEDS

54. LAs need to use many sources of intelligence before they can decide how best to use their limited resources (Exhibit 17, overleaf). They need information on unmet and potential rehousing needs which is both accurate and up-to-date. This should include household characteristics such as assets and income since these can influence the range of feasible solutions.

Internal Sources of Information

55. Waiting lists are maintained by most LAs, including those who have transferred most of their stock. The list is usually confined to residents or those with a local connection. Feed-back usually operates; the greater the chance of rehousing, the more will register. But a properly maintained waiting list is still a major source of information on local housing needs. The application form will typically seek information about the applicant's personal circumstances and current housing conditions in order to determine relative priorities. Points systems are the most common means of distinguishing between the needs of different applicants (Exhibit 18, overleaf; Ref. 12) For the majority of applicants they are to be much preferred to the use of officer or member discretion which leaves the authority open to accusations of preferential treatment. Twenty percent of local authorities still use a date order system and, even where a point scoring system is used, some authorities give such weight to time on the list as to make it a date order system in all but name. This may mean that scarce resources are not directed at those in greatest need.
56. Two thirds of authorities do not collect information about applicants’ incomes or assets, and yet such information is highly pertinent in assessing the affordability of some solutions, particularly low cost home ownership schemes, including Leasehold for the Elderly. Too many authorities adopt rigid rules which cannot cope with individual circumstances. Some do not allow owner-occupiers to apply at all. Others rehouse people without investigating other alternatives which may be more cost effective for the authority.

**Exhibit 17**
IDENTIFYING REHOUSING NEEDS
LAs need many sources of intelligence

<table>
<thead>
<tr>
<th>Population</th>
<th>Information needs</th>
<th>Research method</th>
</tr>
</thead>
<tbody>
<tr>
<td>Private sector</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Adequately housed</td>
<td>1. How many in future need?</td>
<td>Census</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Demographic projections</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Health Authority and Social Services</td>
</tr>
<tr>
<td></td>
<td></td>
<td>liaison</td>
</tr>
<tr>
<td>In need</td>
<td>2. How many in need but unidentified?</td>
<td>Household surveys</td>
</tr>
<tr>
<td>Homeless Households</td>
<td></td>
<td>Housing Association liaison</td>
</tr>
<tr>
<td>Waiting List Applicants</td>
<td>3. Priority of need</td>
<td>Application Forms</td>
</tr>
<tr>
<td></td>
<td>4. Income/assets?</td>
<td></td>
</tr>
<tr>
<td></td>
<td>5. Reasons for homelessness</td>
<td></td>
</tr>
</tbody>
</table>

| LA sector           |                                                 |                                        |
|---------------------|------------------------------------------------|                                        |
| Transfer Applicants | 6. Type of housing needed                       | Transfer application forms             |
|                     | 7. As 8 below                                   |                                        |
| Other tenants       | 8. Potential for alternative housing solutions e.g. cash incentives, shared ownership | Tenant surveys                        |
|                     | 9. Identifying under-occupation, unlicensed occupation |                                        |
| Leavers             | 10. Reasons for leaving, destination            | Exit survey                            |

57. Whatever system a LA adopts for ranking priorities, it will need to monitor the points (or their equivalent) that are needed for an applicant to be allocated a dwelling. This information is required by bed-size and, where appropriate, by area. This gives a ready measure of the relative need of applicants for different types of accommodation. A computerised waiting list can also be interrogated so that the characteristics of the list can be analysed (e.g. by length of time on the list, nature of existing accommodation, type of property required, income and assets).

58. The *statutorily homeless* are the dominant source of demand for family accommodation in many authorities. The length of time people have waited in temporary accommodation is usually the main criterion for determining the order in which people are rehoused, although most authorities allow some measure of officer discretion. Monitoring the reasons for homelessness
acceptances is important. It allows particular trends, such as growth in the number of mortgage arrears cases, to be identified, forecast and ameliorated e.g. by a better debt counselling service. Household size should also be monitored.

59. Tenants often make transfer requests. Their current accommodation may be too small, they may want to move area or there may be social or medical reasons. Authorities need to be able to judge the relative priorities of each application. Points systems are again the most common method, although alternatives are more commonly used than for waiting lists (Exhibit 18). Some authorities award points for under-occupation, but it is argued later (paras. 114-118) that such transfers should be managed separately.

Exhibit 18
ASSESSING PRIORITIES FOR REHOUSING
Points systems are the most common method

Source: Institute of Housing Survey, 1990

60. Information is also needed from tenants who have not applied for transfers, but who may be willing to consider a move. For example, it is useful for the authority to identify tenants who might wish to become owner-occupiers, and to discover the size of cash incentive that would encourage them to do so. Similarly some tenants may be interested in transfer incentives or low cost home ownership schemes. Authorities also need information on the circumstances of tenants to enable them to set rents which strike the right balance between public subsidy and affordability. Surveys which seek this information can also be used to assess under or over occupancy, the take-up of housing benefit, the presence (if any) of unlicensed occupation and, more generally, to gauge tenant satisfaction (which will help to meet the DOE’s requirements for annual reporting to tenants).
61. Casual vacancies are important. Yet very few authorities record the reasons why people move out of council housing. Information about the household type and destination would enable authorities to identify any significant trends, such as a reduction in turnover — overall or in particular areas — which might be an indication of unlicensed occupation or high house prices.

External Sources of information

62. Waiting lists do not paint the complete picture particularly in areas of housing shortage. People may be in housing need, but not registered with the council. They may be ineligible or may believe, rightly or wrongly, that the council is unlikely to rehouse them. The commonest eligibility criteria are residential, family or employment connections with the area. Lettings policies may exclude single people without children, those under 18, and owner occupiers. Given the pressures exerted by those presenting themselves as in need, seeking out others who are also in need will be unattractive to many councils. A strategic housing authority should be aware of everyone's housing needs, even if it is not able, in the short term, to offer an immediate prospect of direct rehousing. So, in addition to the intelligence abstracted from operational data, councils will need to use supplementary sources.

63. Household surveys are the usual means of obtaining such information. In recent years, nearly half of London authorities have completed a survey, but elsewhere the frequency is significantly lower, especially in northern shire districts (Table 4). Other sources of information can help. One authority used information obtained from local health visitors to inform them of the (poor) living conditions of some families in the private rented sector. Records of houses in multiple occupation, social service referrals and hospital discharges can also assist.

Table 4
SURVEYS OF HOUSEHOLD NEEDS
Percentage of LAs undertaking surveys in five years to 31/3/91 (or committed)

<table>
<thead>
<tr>
<th>% LAs</th>
<th>London</th>
<th>Mets. + Big 11</th>
<th>Shires South</th>
<th>Shires North</th>
</tr>
</thead>
<tbody>
<tr>
<td>Surveys of All Households</td>
<td>33%</td>
<td>19%</td>
<td>21%</td>
<td>15%</td>
</tr>
<tr>
<td>Surveys of Specific Groups</td>
<td>17%</td>
<td>19%</td>
<td>17%</td>
<td>6%</td>
</tr>
<tr>
<td>Any Survey</td>
<td>44%</td>
<td>26%</td>
<td>29%</td>
<td>18%</td>
</tr>
</tbody>
</table>

Source: Audit Commission Survey

64. Housing associations often complement authority provision by providing elderly and special needs' housing. Consequently, they have particular knowledge of the needs of these client groups. For example, Southampton City Council operates a Special Needs' Housing Forum whose purpose is to provide a city-wide perspective of housing opportunities for these client groups. The forum suggests priority rankings for new development work to the City's housing committee.

65. The results of the 1991 Census will become available in 1992 and 1993 and will provide further information. Data will be available at ward and enumeration district level. The tenure pattern of local housing markets will be revealed as will details of the number of families who are sharing accommodation, are overcrowded or who lack or share basic amenities. Appendix 4 provides details of some of the tables relevant to rehousing issues. In its paper Numbers That Count the Commission emphasised the need for authorities to plan to use the census and to avoid being
drowned by masses of information. One obvious use of the information is in designing and targeting surveys of household needs.

66. In parallel with the Census, *Demographic Information* is provided by DOE, which projects the numbers of households over the next twenty years. Such projections together with assumptions about employment patterns and industrial and commercial plans inform the statutory local plans which define the volume and location of future housing development. These forecasts contain a significant degree of uncertainty. They take no account of tenure, and make no forecast of the number of households requiring social housing. More complex models are needed because demand is affected by available supply. Thus, while demographic information provides an important context for estimates of the need for social housing, particularly in demonstrating how the mix of household types is changing, it warrants careful interpretation against other relevant information. Certainly for five year forecasts, analyses of waiting lists, homeless acceptances and other internal information can be as useful a guide to councils.

67. Authorities which follow these recommendations will assemble a large body of information. From this they must distil the crucial components of housing need in their areas. Only after they have marshalled an informed view about these needs, will they be in a position to assess the adequacy of existing solutions and the efficacy of possible new initiatives.

LOCAL AUTHORITY STOCK CONDITION

68. Rehousing people in need is not the only challenge facing councils. Additionally they should assess the condition of their own housing stock and estimate the cost of repair and improvement. A simple structural assessment will often be adequate, but sometimes more detail is necessary, particularly for ‘run-down’ estates where the interaction between social and physical conditions may be at the root of problems (Exhibit 19). As before, the authority’s first task is to assemble the information which will help it decide how best to use its limited resources.

Exhibit 19
IDENTIFYING LOCAL AUTHORITY STOCK CONDITION NEEDS

More information is needed for ‘run-down’ estates where the interaction between social and physical conditions may be at the root of the problems.
**Conventional Repair and Maintenance**

69. LAs can glean considerable information about stock conditions from their operational systems, in particular from repair requests. This can yield useful information about problems whose importance has gone unnoticed. Authorities should therefore ensure that such data is summarised and scrutinised regularly to detect any unexpected events or trends. This ideally requires a standard report showing the frequency and associated cost of day-to-day repairs by type of work and by estate or area, and the variation from authority averages and over time.

70. Useful though this information is, it can only provide a sketchy picture of housing conditions, and so other sources are essential. The Commission’s report *Improving Council House Maintenance* recommended that authorities should inform their maintenance priorities by undertaking *sample surveys* of the construction method and the condition of their housing stock. Such surveys can be supplemented with detailed information obtained from inspections linked to painting and other maintenance cycles. In addition to identifying backlogs of repair or modernisation, authorities need to plan for programmed repairs (reroofing, rewiring etc.). A knowledge of the ages of different parts of the stock and standard component life-times will form the basis of such forecasts.

71. These recommendations still hold true today. Even for those authorities whose known backlogs exceed likely resources, it is still necessary to establish priorities in the light of good information on the condition of all the stock. Yet a significant minority still have not undertaken such surveys (Table 5).

<table>
<thead>
<tr>
<th>% LAs</th>
<th>London</th>
<th>Mets. + Big 11</th>
<th>Shires South</th>
<th>Shires North</th>
</tr>
</thead>
<tbody>
<tr>
<td>External only</td>
<td>33%</td>
<td>23%</td>
<td>25%</td>
<td>24%</td>
</tr>
<tr>
<td>External and internal</td>
<td>33%</td>
<td>52%</td>
<td>71%</td>
<td>45%</td>
</tr>
<tr>
<td>Any type</td>
<td>50%</td>
<td>55%</td>
<td>71%</td>
<td>61%</td>
</tr>
</tbody>
</table>

*Source: Audit Commission Survey*

72. LAs must consider all potential uses for the information and design surveys accordingly. To get the most out of the information, it must be accessible and amenable to regular updating. It should not be seen as a one-off exercise. A computerised data management and reporting system is the ideal, as is to be found in Southampton City Council (Box A). The results can cause authorities to rethink their priorities. Southampton found that the required repair work was much more extensive than expected, amounting to a ten year programme of £141m, compared with the existing annual budget of about £7m. The City Council had been concentrating on a whole-house improvement programme, and had tackled about 40 per cent of the 5,000 pre-1960 purpose-built flats, at an average cost of about £20,000. The survey results caused them to rethink. They switched to internal and external packages, so that only the most urgent work was done and greater coverage was achieved.
Run-down Estates

73. In some authorities structural problems are spread evenly throughout the stock while in others they are concentrated in particular estates, often those constructed by non-traditional methods. Such estates can also suffer social problems which necessitate radical and comprehensive solutions. Money spent merely tackling the condition of the stock can be wasted if social problems are ignored.

74. The DOE's Estate Action publication *Handbook of Estate Improvement, Part I: Appraising Options* (Ref. 13) offers a comprehensive guide to the assessment of problem estates. The first stage is the evaluation of an estate's physical, social and economic circumstances; housing demand and management; and community development issues. This enables provisional options to be identified, prior to quantitative and qualitative evaluations. A core working group of housing management and technical staff (along with residents’ representatives) should undertake the work. Other specialist advice can be engaged as necessary.

PRIVATE SECTOR NEEDS

75. The third component of housing demand arises from the condition of the private sector stock. The 1989 Local Government and Housing Act places a new duty on authorities to make an annual assessment of housing needs in the private sector. But as with the LA stock, different
types of needs assessment are appropriate in different local circumstances. The first task is to identify any problem neighbourhoods (Exhibit 20).

Exhibit 20
IDENTIFYING PRIVATE SECTOR NEEDS
Different types of needs assessment are appropriate depending on the nature of problems within an authority. The first task is to identify any problem neighbourhoods.

---

76. Staff will have a good provisional view of which areas are characterised by property in poor condition and by social deprivation. But other information can help complete the picture. The 1991 Census results will describe the incidence of households lacking or sharing facilities, and on overcrowding. Grant applications and complaints can provide some indication of needs, but this can be misleading because those living in the poorest conditions are not necessarily those most likely to approach the council. The most reliable method is a sample survey. Ideally, this should provide information on the age and financial circumstances of occupants as well as on the tenure and physical conditions of the property, to enable authorities to assess the impact of alternative strategies. Further information on the concentration of low income households can be obtained from community charge and housing benefit records.

77. Sample household surveys are less common than in the LA stock, except in metropolitan and large urban authorities. In London only a third of authorities had conducted a survey of any type in the last five years. Shire district authorities did little better, although one in six of northern shires had carried out some form of neighbourhood survey (Table 6). All LAs should consider such surveys. They need not be expensive and, in addition to being the basis for the authority's strategy, they can help to monitor the authority's effectiveness. LAs can omit areas where the stock is new or in good condition.

78. The grant regime introduced in July 1990 has led to considerable uncertainty. Subject to a test of resources, private landlords and owner occupiers can apply for grants to renovate unfit properties. But for most authorities the potential demand is not known, nor is the likely level of take-up after the assessment of the occupant's contribution (the means test ignores mortgage costs.
and can be a strong disincentive to newer house-owners). Because grants use up the authority's spending power, and over-spending the budget can mean less resources for other programmes, authorities need a reliable forecast, and should monitor the number of applications and take-up rates.

79. Good information on Houses in Multiple Occupations (HMOs) is important in directing action but nearly three-quarters of all authorities do not know the number requiring attention (Ref. 9). They can be difficult to identify. LAs can either conduct a 'Walk-the-Streets' survey, looking for multiple door bells etc., or use LA databases (subject to the provisions of the Data Protection Act) to identify people living at the same address. Lists of student lodgings also can assist.

Table 6
SURVEYS OF PRIVATE SECTOR STOCK CONDITIONS
Percentage of LAs undertaking surveys in five years to 31/3/91 (or committed)

<table>
<thead>
<tr>
<th>% LAs</th>
<th>London</th>
<th>Mets. + Big 11</th>
<th>Shires South</th>
<th>Shires North</th>
</tr>
</thead>
<tbody>
<tr>
<td>Authority-wide Surveys</td>
<td>17%</td>
<td>35%</td>
<td>8%</td>
<td>27%</td>
</tr>
<tr>
<td></td>
<td>22%</td>
<td>42%</td>
<td>33%</td>
<td>27%</td>
</tr>
<tr>
<td></td>
<td>33%</td>
<td>61%</td>
<td>38%</td>
<td>39%</td>
</tr>
<tr>
<td>Neighbourhood Surveys</td>
<td>11%</td>
<td>55%</td>
<td>4%</td>
<td>33%</td>
</tr>
<tr>
<td>Any Survey</td>
<td>33%</td>
<td>74%</td>
<td>42%</td>
<td>55%</td>
</tr>
</tbody>
</table>

Source: Audit Commission Survey

80. A particular concentration of problems can merit a Neighbourhood Renewal Assessment (NRA), perhaps as a prelude to the declaration of a Renewal Area. Areas can vary considerably, in terms of the stock condition, the existence of natural groupings within the community and their desire to remain in the area. The residents’ financial resources, overcrowding, and the availability of land also varies. So differing solutions are required. The assessment process recommended by the DOE is fully described in para. 198-202.

81. At the end of this process of identification, LAs can make a quantified statement of its needs in all three programme areas (Exhibit 21, overleaf). Housing committees should then be well placed to review the needs of their area and make a political assessment of their priorities. But in so doing, they must be guided by a realistic view of the resources likely to be at their disposal, once their commitments have been discharged.
LOCAL AUTHORITY NEEDS STATEMENT

LAs should make a quantified statement of their housing needs in all three programme areas.

<table>
<thead>
<tr>
<th>Rehousing</th>
<th>Applicants in priority need, by accommodation type and tenure required</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Tenants who might move and nature/size of any necessary incentives</td>
</tr>
<tr>
<td></td>
<td>Measures of affordability</td>
</tr>
<tr>
<td></td>
<td>Future needs as affected by population and household trends</td>
</tr>
<tr>
<td>LA stock condition</td>
<td>The type and cost of necessary repairs and improvements</td>
</tr>
<tr>
<td></td>
<td>Identification of problem estates</td>
</tr>
<tr>
<td>Private sector</td>
<td>Numbers and condition of poor quality stock</td>
</tr>
<tr>
<td></td>
<td>Grant take-up rates and cost</td>
</tr>
<tr>
<td></td>
<td>Neighbourhoods requiring area-based action, their housing conditions</td>
</tr>
<tr>
<td></td>
<td>and residents’ financial circumstances</td>
</tr>
<tr>
<td></td>
<td>Potential take-up of agency schemes</td>
</tr>
</tbody>
</table>

B: ASSESSING LOCAL RESOURCES

82. Under the new financial regime, the key limiting factor on an authority’s capital spending on housing is usually ‘spending power’ i.e. the sum of internally generated funds and credit approvals (Exhibit 22). But land banks are a further resource. In Wales, some of the terminology and practices differ, but the principles are largely the same (Box B).

ASSESSING RESOURCES

The key limiting factor is usually ‘spending power’
In Wales, the housing problems are somewhat different and the legislation varies. The principal difference is that owner occupation is a little more prevalent (72 per cent compared to 68 per cent), but this stock is older and in worse condition. The Welsh Office’s capital allocations reflect this situation. (The position is further amplified in Appendix 3). Welsh authorities have been able to provide renovation grants without any pre-set limit on spending; nationally, the amount initially set aside for this expenditure could be increased if necessary.

Wales is approximately 1/17th the size of England and this has enabled closer links to be established between the Welsh Office, the local authorities and Housing for Wales (Tai Cymru). The Welsh Office holds annual review meetings with each individual local authority. The LA has to submit a three year Housing Strategy and Operational Plan (HSOP) - broadly equivalent to HIP. The emphasis is on local plans and performance as opposed to a bidding process. However the BCAs are entirely formula driven and only the SCAs are subject to individual appraisal (and competition). The formula is arguably closer to local authority stock requirements because it uses data from the Welsh House Condition survey, which is at district level.

Another significant difference is in the rules for the use of capital receipts. While only 25 per cent of the receipts from right-to-buy sales can be re-applied, 100 per cent of receipts from the sale of land, the disposal of shared ownership leases and of dwellings in need of repair, where the purchaser executes significant repair or improvement within a specified period, can be re-used. On a number of occasions LAs have surrendered capital allocations back to the Welsh Office for use by housing associations who might then buy LA land for a particular scheme. These measures have encouraged closer links with housing associations. The proportion of LA receipts that the Welsh Office takes into account when setting LA allocations is also different.

There are are other less important differences. The HRA subsidy system is very similar but the Welsh Office sets its own guidelines for notional management and maintenance allowances and rent increases. No guideline figure for the void percentage is set because average void levels are already low.

CREDIT APPROVALS

Prior to April 1990, the volume of LA capital receipts, notably from council house sales, had made it difficult for government to target resources to the areas of most need. The new capital control system introduced in the 1989 Local Government and Housing Act enabled central government to take account of a LA’s receipts. Government deducts a proportion of the LA’s usable receipts from its estimate of the LA’s total capital requirements, the Annual Capital Guideline (ACG). The resulting amount, called its Basic Credit Approval (BCA), is the maximum amount an authority is allowed to borrow to finance capital expenditure. The Receipts Taken Into Account (RTIAs) in English district councils and metropolitan and London boroughs were £338m in 1992-93, representing about 17 per cent of the £1.97 billion of usable receipts as at March 1992. Housing receipts accounted for 64 per cent of the total.
84. The BCA applies to all services provided by the authority. But the part relating to the HRA, the HRA BCA is also notionally defined, because it is sets the limit for debt charges covered by HRA subsidy. It is calculated by dividing the HIP allocation (the sum of the Housing ACG and the Specific Capital Grant) into HRA and non-HRA elements, and deducting an amount due to RTIAs. The calculation is exemplified in Box C. Non-HRA housing capital expenditure is reflected in the capital financing elements of the authority’s standard spending assessment, as for non-housing capital. The HRA/non-HRA split may be inappropriate but, since credit approvals and capital receipts can be vired between services, it should not matter. In practice, committees can be reluctant to give up ‘their’ resources, and some fear that housing credit approvals vired to other services might result in reduced housing allocations in future.

**Box C**

<table>
<thead>
<tr>
<th>CALCULATION OF THE HRA BASIC CREDIT ALLOCATION</th>
<th>ILLUSTRATIVE</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>£000</strong></td>
<td></td>
</tr>
<tr>
<td>Total usable receipts (all services)</td>
<td>a</td>
</tr>
<tr>
<td>Receipts Taken into Account (17% of a)</td>
<td>b</td>
</tr>
<tr>
<td>Annual Capital Guideline (inc. SCG)</td>
<td>c</td>
</tr>
<tr>
<td>Less RTIA</td>
<td>b</td>
</tr>
<tr>
<td>‘Borrowing’ BCA (c-b)</td>
<td>d</td>
</tr>
<tr>
<td>Specific Capital Grant (SCG)</td>
<td>e</td>
</tr>
<tr>
<td>Basic Credit Approval (BCA)</td>
<td>f</td>
</tr>
<tr>
<td>HIP Allocation</td>
<td>g</td>
</tr>
<tr>
<td><strong>(Notional)</strong> HRA ACG (80% of g)</td>
<td>h</td>
</tr>
<tr>
<td><strong>(Notional)</strong> HRA BCA (h x d/c)</td>
<td>i</td>
</tr>
</tbody>
</table>

Notes:  
1. **HIP Allocation** = Housing ACG + SCG.  
2. Percentage used in calculation of (h) is the average HRA capital expenditure in the last two years as a percentage of total housing capital.  
3. Any Estate Action BCA for continuation schemes is added to the HRA ACG (h).  
4. The non-HRA ACG (g–h) must be at least as much as the SCG (e).

85. Some of the Housing Capital Programme is distributed via Supplementary Credit Approvals (SCAs), which are linked to particular government initiatives, such as Estate Action. These have been successful in tackling some of the worst housing problems in the country. The nature and size of these schemes tends to vary from year to year (Table 7).

86. SCA funding relies upon a process of competitive bidding by authorities for projects which meet the necessary criteria. The bidding process can be expensive and time-consuming. A typical bid for Estate Action might take two years of staff time, with no guarantee of success. To minimise such problems, the DOE uses a two stage process (Forms A and B) which aims to
filter out the less attractive applications at an early stage. In the DOE's Northern Region about thirty Form A bids are made each year, of which about half proceed to Form B; no Form B application has failed to receive funding in the last two years. However, in some Regions, notably London, a high proportion of Form B bids fail. In addition, many people consider the bidding timescale too short to complete the option appraisal process and all the necessary consultations, particularly for large projects.

Table 7
SUPPLEMENTARY CREDIT APPROVALS (£M)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Homelessness Initiative</td>
<td>115</td>
<td></td>
</tr>
<tr>
<td>Rural Housing Programme</td>
<td>50</td>
<td>30</td>
</tr>
<tr>
<td>Energy Efficiency Projects</td>
<td>10</td>
<td>45</td>
</tr>
<tr>
<td>Mandatory Renovation Grants</td>
<td>25</td>
<td>30</td>
</tr>
<tr>
<td>Private Sector Leasing</td>
<td>25</td>
<td>-</td>
</tr>
<tr>
<td>Flats over Shops</td>
<td></td>
<td>5</td>
</tr>
<tr>
<td>Other</td>
<td>2</td>
<td>-</td>
</tr>
<tr>
<td><strong>Total SCAs</strong></td>
<td><strong>387</strong></td>
<td><strong>310</strong></td>
</tr>
</tbody>
</table>

87. Estate Action is very important in some Regions. In the DOE's Northern Region, for example, new and continuing schemes account for 37 per cent of all HRA capital funding, and for two LAs the proportion exceeds 70 per cent (Exhibit 23). Part of the negotiating process concerns the level of LA contributions, normally about 25 per cent. But with HIP allocations decreasing, LAs may find that even this level is too much to support, and may need to argue for a higher DOE contribution.

Exhibit 23
THE SIGNIFICANCE OF ESTATE ACTION
In DOE's Northern Region, an average of 37% of capital resources are devoted to Estate Action

Note: Data includes SCAs, BCAs for continuation schemes and LA contributions
Source: DOE, Northern Region

35
REVENUE CONTRIBUTIONS TO CAPITAL

88. In addition to credit approvals, LAs can fund capital expenditure through usable capital receipts and Revenue Contributions to Capital Outlay (RCCOs). RCCOs are contributions to capital from the revenue account, usually made possible by setting rent levels above the government’s guidelines (higher rents can also be used to finance management and maintenance revenue expenditure in excess of government guidelines).

89. The relative importance of the different sources of spending power varies considerably among authorities (Table 8).

<table>
<thead>
<tr>
<th>Source</th>
<th>London</th>
<th>Mets.</th>
<th>Shire districts</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>BCA</td>
<td>58%</td>
<td>66%</td>
<td>32%</td>
<td>46%</td>
</tr>
<tr>
<td>SCA</td>
<td>14%</td>
<td>11%</td>
<td>3%</td>
<td>7%</td>
</tr>
<tr>
<td>Capital Receipts</td>
<td>26%</td>
<td>17%</td>
<td>57%</td>
<td>41%</td>
</tr>
<tr>
<td>RCCOs</td>
<td>2%</td>
<td>5%</td>
<td>7%</td>
<td>5%</td>
</tr>
<tr>
<td>Temporary Borrowing</td>
<td>–</td>
<td>1%</td>
<td>1%</td>
<td>1%</td>
</tr>
<tr>
<td>Total</td>
<td>100%</td>
<td>100%</td>
<td>100%</td>
<td>100%</td>
</tr>
</tbody>
</table>

Source: 1990-91 Estimates, 1990 HIP Returns

90. RCCOs can be a relatively substantial source of funds. The new financial regime introduced a new form of subsidy, HRA subsidy, which provides authorities with revenue funding to meet the gap between ‘notional’ expenditure and income. The notional HRA uses government guidelines for both rent income and management and maintenance expenditure, so that if authorities choose to set higher rents then they can finance higher levels of expenditure, for instance on maintenance financed directly from revenue or through RCCOs. RCCOs can also arise from improved management, particularly reduced write-offs of arrears or lower maintenance costs.

91. The level of rent increases has varied widely. In London increases averaged 23 per cent in 1991-92, compared with 9 per cent in the metropolitan authorities. Authorities need to consider the scope for RCCOs funded by rent increases. A phased increase of an average of £5 per week in England would raise around £1 billion in additional revenue each year (approximately 70 per cent of this would be met by housing benefit at a cost to the Government of £700 million). It would enable authorities to maintain their expenditure on maintaining their own stock and on private sector grants at the average level of 1985-88. While a national average figure of £5 might be reasonable the potential increase in each area will vary. Some areas with low rents and widespread stock condition problems might consider a higher increase, others will have already increased rents for this purpose, or have concerns about the affordability of rents and will not consider it appropriate. (Under the present housing benefit rules, those who are in relatively low paid employment gain little from extra earnings – the ‘poverty trap’. Rent rises would increase the range of incomes affected.) Some authorities are not making RCCOs because they fear that the present system for calculating revenue subsidies might change.
92. Assessing the potential for RCCOs ideally requires a computer model, which some authorities already employ. The ADC has commissioned a model which will allow authorities to prepare five-year projections of their capital programmes and to calculate the implications for their revenue accounts. But RCCOs can be calculated approximately, as Table 9 shows. In this example, derived from a study authority, both RCCOs and extra spending on management and maintenance have been financed by rent levels above guidelines and also, initially, by a reduction in working balances.

Table 9
PREDICTION OF RCCOs (£M)          ILLUSTRATIVE

<table>
<thead>
<tr>
<th></th>
<th>90-91</th>
<th>91-92</th>
<th>92-93</th>
<th>93-94</th>
<th>94-95</th>
</tr>
</thead>
<tbody>
<tr>
<td>RCCOs</td>
<td>5.31</td>
<td>5.63</td>
<td>5.95</td>
<td>6.44</td>
<td>6.44</td>
</tr>
<tr>
<td>M&amp;M less Notional M&amp;M</td>
<td>(0.65)</td>
<td>0.06</td>
<td>0.78</td>
<td>1.33</td>
<td>1.95</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>4.66</td>
<td>5.69</td>
<td>6.73</td>
<td>7.77</td>
<td>8.39</td>
</tr>
</tbody>
</table>

Funded by:

- Reduction in balances: 1.80, 0.30, _, _, _
- Rent less Notional Rent: 2.11, 4.06, 6.00, 7.24, 8.08
- Balancing Item: 0.75, 1.33, 0.73, 0.53, 0.31

Note: The ‘Balancing Item’ is the sum of the differences between the notional and actual HRAs for debt charges, interest, other expenditure and other income. This will be known in the first year. Any changes to this amount in future years can be estimated accurately by identifying the main items where notional and actual HRAs are likely to differ e.g. interest on cash balances, principal repayments.

USABLE CAPITAL RECEIPTS

93. Usable capital receipts arise mainly from council house sales. Some authorities will be able to supplement this by disposals of land or property at market value, but only the usable proportion is added to their spending power. The use of receipts is restricted to 25 per cent of the value of the property sales and 50 per cent of land sales. But where the main need is for additional housing then the use of land for HAG Stretch (See paras. 124-125) will normally produce more units than the sale of land and use of the proceeds to fund grants to housing associations.

94. Some authorities were slow to promote right-to-buy, and inefficient at administering it, thereby lowering capital receipts at an important time. But it is not possible to quantify at a national level the extent to which land and property sales could now assist local authorities further; there can be many local reasons why land cannot be available immediately, including the lack of effective demand.

LOCAL AUTHORITY LAND

95. The Commission's survey sought details of land that was potentially suitable for development. Some scope exists for enhancing capital programmes, but the survey found that authorities subject to the greatest housing demand had the least resources, and in London and the Shires there are already plans for the use of two thirds of it (Exhibit 24, overleaf). LAs are finding it increasingly difficult to obtain funding for their own construction programmes. When considering the use of vacant land most LAs now have to choose between sales at market price or at a subsidised price to a housing association. The first maximises capital receipts which can
Exhibit 24
LAND SUITABLE FOR POTENTIAL HOUSING DEVELOPMENT

In London and the Shires there are already plans for the use of two thirds of LA land potentially suitable for housing.

![Diagram showing land use percentages in London, Southern Shires, Northern Shires, and Mets + Big 11 districts.]

Source: Audit Commission Survey

be applied to the LA's own stock whereas the second increases the LA's nomination rights. Southern shires are planning to sell a quarter of their land at below market value, but the proportions are, not surprisingly, lower in London (14 per cent) and negligible elsewhere.

OTHER SOURCES OF FUNDING

96. Inner Area Programme (IAP) authorities can attract additional housing resources from funds targeted at urban regeneration. City Grant is given for projects, including private (but not social) housing, which would not be viable without some form of public subsidy. Nearly 6,000 homes, the majority in the north, were provided in the first 30 months after its inception in May 1988. Grants for all projects the first seven months of 1991-92 totalled £45m, and will attract £218m of private sector investment. LAs cannot bid for City Grant funds directly, since the rules require private developers to make the application. However, authorities take the initiative and explore potential projects with developers, to ensure that the maximum benefits are gained.

97. The Urban Programme is a further source of funds for housing related projects, such as environmental works and traffic schemes. It cannot be used to fund basic housing functions. It is likely to be part of a package of resources, for example as an adjunct to Estate Action. The total programme is currently £250m per year and funds 10,000 projects in the 57 designated authorities, although only about nine per cent is for housing-related purposes. Thirteen authorities have also benefited from City Challenge funding. Housing projects figure prominently
in many of the detailed action plans, which had to be submitted by the end of January 1992. For 1992-93 £29.5m of the planning total for LA capital expenditure is to be allocated through City Challenge.

* * *

98. Once needs of have been assessed for each programme area, and a preliminary view of likely resources has been taken, authorities can draw up a list of options for investment and evaluate them. However, authorities cannot be confident about their future resources. They depend significantly on the DOE and are subject to the vagaries of the local property market for capital receipts. Good liaison with regional controllers is essential. Local resources should be compared with existing commitments. The authority then needs to review its statement of needs in order to decide whether to vary the allocation to programme areas (Exhibit 25) and whether to seek additional resources through land disposals or rent increases. Many authorities will find that their resources have declined significantly and they have to reduce or abandon any new commitments to the rehousing programme. Others will conclude that rent increases are necessary to achieve a viable stock condition programme. And all authorities will need to identify the best uses for their available land.

*Exhibit 25*

**DETERMINING A PROVISIONAL ALLOCATION OF RESOURCES**

LAs need to review their statements of needs and to decide whether to vary the allocation to programme areas.
99. The allocation to each programme area will not be final because detailed consideration of the various options may lead the authority to reconsider its initial view. Moreover, as the DOE moves increasingly away from a formula led system, councils will have decreasing confidence about their future resources. But this revised approach places even greater emphasis on the quality of the authority's programme and the justification for the components of the bid.

**C: REHOUSING OPTIONS**

100. The evaluation of rehousing options demands a systematic procedure (Exhibit 26). First, there may be some scope for improved management, which can release extra lettings. The next step is to decide how to measure the costs and the benefits so that a suitable cost/benefit measure can be used to evaluate the alternatives. Thirdly, the extent and nature of the 'gap' between supply and demand must be identified, which leads to the identification and evaluation of appropriate options.

**Exhibit 26**

**PLANNING A REHOUSING PROGRAMME**

Identifying the best programme requires a systematic and comprehensive approach

---

**IMPROVED MANAGEMENT**

101. There are some steps which should be undertaken regardless of the LA's assessment of its needs and resources. All authorities should ensure that the supply of lettings is enhanced by efficient management practices.

**Void Intervals**

102. Efficient void management can improve the availability of properties and hence increase the supply of lettings. The Commission's report *Managing the Crisis in Council Housing* identified a number of key elements in the control of turn-around times (Exhibit 27) and also proposed benchmarks on void turn-round times of six weeks in London and three weeks.
Exhibit 27

MODEL LETTING PROCEDURE

Key elements in the control of turn-around times
elsewhere. Two thirds of LAs fail to meet this standard (Exhibit 28). Improvements in relet periods since 1986-87 have led to an additional 2,500 lettings in total, but if all authorities achieved these targets it would result in an extra 26,000 lettings in England in a year. About 8,500 of these would be in London and the southern shire districts; the main areas of housing shortage. It should be possible to achieve the shorter relet periods by more efficient working practices and without extra staff.

Exhibit 28
VOID INTERVALS
Two thirds of LAs have void intervals in excess of Commission benchmarks

\[\text{Source: DOE, HIP 1990-91 returns}\]

103. With average rents of £30 per week in 1992-93, authorities would gain additional rental income of £40 million per annum. Because the subsidy payable assumes a two per cent void level regardless of the actual position, improvements in void management can boost capital resources by increasing the potential for RCCOs.

Reducing Voids in Other Sectors

104. Void rates are higher in the private than the public sector. There are a number of initiatives which could help to reduce the demand for social housing. The ‘flats-over-shops’ schemes provide financial support to owners of such flats who may be prepared to convert and then let their properties through housing associations. Housing associations are also being encouraged to manage the letting of other vacant property, although it is too soon to quantify the effect of such schemes.

105. There are also problems of voids in residential properties owned by government departments. The void rate ranges between 9 per cent and 16 per cent amongst major departments and, as at March 1992, these numbered 27,300. Voids cost money in terms of lost rent and deterioration. The DOE and the Welsh office published guidance in March 1992 which recommends that Departments prepare public registers of vacant property that could be used by
housing associations and local authorities for short term leases to homeless families. Housing associations could use mini-HAG to finance any necessary works to make them fit for short term use.

**Unlicensed Occupation**

106. There is growing evidence that some London Boroughs are suffering from relatively high levels of unlicensed occupation. The London Research Centre estimated in 1986 that 10,000 additional properties had become illegally occupied in one year (Ref 15), and there is a low turnover rate of lettings in Inner London Boroughs compared to other parts of the country (Exhibit 29). London Boroughs that have begun to attack the problem have found between one and two percent of all their properties have unlicensed tenants – on particular estates it can be as high as five percent, even before problems of voids and squatting are taken into account.

Exhibit 29

**TRENDS IN RELET RATES**

There is a low turnover rate in Inner London Boroughs

![Graph showing trends in relet rates](image)

Source: HIP returns, Welsh Housing Statistics

107. The problem is particularly acute in Inner London for several reasons. Firstly the shortage of private accommodation has driven market rents to levels significantly higher than council rents, so that there is a ready market for the sale of keys. Secondly the anonymity of many blocks means that occupancy changes go undetected. Reductions in the number of resident caretakers and the elimination of door-to-door rent collection have made detection more difficult where the new 'tenant' continues to pay the rent. Other councils which share at least some of these characteristics should undertake sample surveys to see if they too have a problem with illegal occupiers.

108. One way to tackle the problem is by employing people to visit targeted properties. The eviction of illegal occupiers releases accommodation for priority cases, both saving money and meeting acute housing needs. The DOE is undertaking research that will identify good practice guidelines for LAs. The results should be available in the second half of 1993.
109. The London Borough of Camden carried out a door-to-door check on a sample of their properties in 1991 and based on this sample expected to identify 400 unauthorised occupied properties after a survey of all of its 32,000 properties is completed by February 1992. This represents 1.3 per cent of the stock and if repeated across inner London could release nearly 6,000 lettings. The number reported on HIP returns suggest that at least 700 lettings could be released in the rest of England.

110. Most of these gains will occur once only, but continued vigilance could generate an additional turnover of perhaps 0.25 per cent or 1,500-2,000 additional lets per year in inner London. It will take time to evict such a large number of occupiers. And some of the unauthorised occupiers are likely to be priority homeless householders for whom the authority will have a rehousing responsibility. Camden's experience has been that very few fall into this category.

Better Use of Housing Association Nominations

111. Local authorities in England were entitled to make nominations to around 28,000 housing association lettings in 1990-91. In practice they only made around 19,000. Where they have an entitlement, it is usually to 50 per cent of lettings but they achieved only 34 per cent. If full take-up of their entitlement was achieved, authorities could have had access to around 9,000 more lettings. There is no net gain in social housing provision but where nominations are taken up by clear priority groups, such as the homeless, there will be benefits. It should be possible to increase take-up of nominations through greater efficiency and without the employment of additional staff.

112. Authorities usually use most of their nomination rights to new housing association properties, but (outside London) they have not always been as successful in exercising their rights to relets (Exhibit 30). Guidelines laid down in Partners in Meeting Housing Need (Ref. 16) recommend that 75 per cent of HA family lettings should go to LA nominations. In London and the South East, levels of 71 per cent and 61 per cent respectively had been achieved by the start of 1991. The Housing Corporation's target is that an average of 50 per cent of all types of relevant lettings should be to LA nominations. The Corporation has no plans to alter this because it is anxious to preserve the independence of associations. Some associations have a low proportion of family units and therefore cannot give much direct support to homeless families. But there is still scope for indirect help. If the LA can transfer an existing tenant who is under-occupying family accommodation to a housing association property, then a homeless family can be rehoused. While this is often recognised, some authorities assert that associations sometimes reject such nominations because the household in question is not itself 'in need'. Clearly better communication and cooperation are needed in such circumstances.

113. The importance of the type of nomination suggests that LAs should include the mix as well as the level of nominations in their negotiations with HA. This is the spirit of the joint statement by the National Federation of Housing Associations (NFHA), the Association of Metropolitan Authorities (AMA) and the Association of District Councils (ADC) on LA nominations which proposes cooperation on forecasting relets, agreeing nomination rights and monitoring performance (Ref. 17). But there is evidence that few LAs know the mix of HA stock in their area or have established suitable procedures to make the most of the resultant lettings.
Exhibit 30

HOUSING ASSOCIATION NOMINATIONS
Take-up is satisfactory only in London

Source: Audit Commission Survey

Allocations Management

114. Management action can not only improve the supply of lettings; it can also improve their use. Traditional allocation policies concentrate on the relative merits of applicants for a given bed type from a given source (e.g., waiting list applicants for two-bedded accommodation) often through a points system (para. 55). When a vacancy occurs, the allocations officer looks at the top of the waiting list, the top of the transfer list and the length of time homeless households have been in temporary accommodation, and makes a subjective judgment of relative priority before making a tenancy offer.

115. But the balance of demand and supply for different types of accommodation is rarely the same. Some LAs are short of elderly accommodation. Others, particularly in London and the South, are desperately short of family houses (Exhibit 31, overleaf). Most such LAs facilitate the transfer of elderly people from under-occupied family houses to smaller dwellings. But not all authorities realise the full potential of management transfers to achieve a better distribution of demand and supply for individual bed types.

116. Authorities should begin planning for the year ahead with an analysis of the supply and demand for individual stock types. They should then examine transfer requests and identify any requests that would improve the match (Exhibit 32, overleaf). If someone wants to move from a two-bed to a three-bed property, and two-bed is in shorter supply, then the LA should allow the request, regardless of transfer points awarded to the tenant or their length of time on the list. Unfortunately, many LAs do not have the required information. Some do not know the relet rate by bed type or the numbers of transfers effected. Such plans can best be implemented by means of target allocations which break down the annual lettings plan into monthly or weekly totals.
Allocations policies which are efficient at targeting the greatest needs can nevertheless conflict with other objectives. Maximising beneficial transfers can mean offering the best properties to potential transferees, meaning that the homeless and people on the waiting list have to put up with poorer accommodation when they do get rehoused. And because the majority of black households are allocated council housing through these channels, there is a possibility that indirect discrimination (unlawful under the Race Relations Act 1976) can result. If challenged, a LA would have to show that such discrimination was ‘justifiable’, presumably by showing that the aim of the allocation system was to target resources to those in most need. In any case, it is essential to monitor offers accepted and refused on the basis of ethnic origin.

Good practice in allocations management requires LAs to undertake a careful analysis of local supply/demand conditions and make the most of the opportunities to meet high priority housing need (Exhibit 33). This need not mean a highly sophisticated computer system. Decentralised allocation systems can be made to fit into a targeted approach, but central coordination is necessary to make it work. The basic essential is that the key items of information

Source: Audit Commission Survey
Exhibit 32
SUPPLY/DEMAND ANALYSIS
Analysing the supply and demand for individual stock types will help to identify transfers that improve the match.

Exhibit 33
ALLOCATIONS MANAGEMENT
Good practice makes best use of opportunities to meet high priority need.

- Use a common points system for prioritising both waiting list and transfer applications
- Analyse supply and demand for the year ahead for each type of accommodation by:
  - Forecasting the supply of lettings
  - Forecasting priority demand from homeless households, the waiting list, transfers etc.
  - Identifying any supply/demand mismatch
- Identify how the match can be improved by using beneficial transfers
- Draw up allocations targets based on the best match possible
- Monitor allocations against targets through the year and control as necessary to achieve the plan as closely as possible

described are available. The patchy response to the relevant question in the Commission's survey indicated that many LAs do not have ready access to the information they need.

COST/BENEFIT MEASURES

119. A common basis for evaluation is required in order to compare alternative ways of meeting housing need. One useful indicator is a measure of the cost/benefit ratio of an investment.
ie how much 'housing need' is met for each unit of LA investment (Exhibit 34). This can help LAs identify which options provide the greatest value for money, and hence prioritise their investment programmes. There is no single best way of defining such a measure. Different interpretations of both costs and benefits can be justified. For the purpose of this report the measure of cost is taken as the 'spending power' used (see para. 82), because for many LAs this will be the major constraint on their investment programme. It is therefore crucial to make the best use of it. Net changes to revenue cashflows would be included in this definition of cost, because they impact on a LA's ability to provide RCCOs. Costs incurred at different times can be allowed for by applying a discount factor.

Exhibit 34
DEFINING A COST/BENEFIT MEASURE
Evaluation requires a common cost/benefit measure

<table>
<thead>
<tr>
<th>Option</th>
<th>A local authority provides a housing association with finance (LA HAG)(^{(1)}) to build 100 houses. In return it receives 100% nomination rights to the initial lettings and relets for 10 years, and 50% thereafter.</th>
</tr>
</thead>
</table>
| Cost   | Spending power foregone = \(\text{No. dwellings} \times \text{development cost} \times \% \text{subsidy}^{(2)}\)  
\(= 100 \times £80,000 \times 71\%\)  
\(= £5.68\) |
| Benefit| Initial lettings = 100  
Relets:  
\(100 \times \text{turnover rate} \times \text{nomination rate} \times \text{no. of years}\)  
\(\text{Yrs 1–10} \times 100 \times 3\% \times 100\% \times 10 = 30\)  
\(\text{Yrs 11–30} \times 100 \times 3\% \times 50\% \times 20 = 30\)  
\(\text{Total lettings released in 30 yr period:} 100 + 30 + 30 = 160\) |
| Cost/Benefit | Cost/letting = £5.68/160 = £35,500 |

Notes:  
1. See para. 124 for further details of LA HAG  
2. Some proportion of all housing association 'mixed funded' schemes must be privately funded (average 29% in 1992-93)

120. Benefits are defined here as the additional number of lettings of a given type (e.g. two bed or elderly) produced over 30 years as a result of the investment. 'Knock-on' effects are important, so that, for example, the net benefit from renovating elderly persons' accommodation, to attract transfers from under-occupiers of family accommodation, would be counted as additional family lettings. (In this case, the lettings are actually brought forward, rather than being completely new, since sooner or later the vacancies would have occurred anyway).

121. The benefit measure should register only priority needs being met – there is no merit in a cheap scheme if it only succeeds in rehousing those whom the council consider are low priorities. It follows that LAs must be clear where their priorities lie, although this is not always easy when conditions of supply and demand are changing rapidly. Some LAs are only now beginning to suffer a decline in lettings as their building programmes come to an end and as they experience the lagged effect of council house sales. This has often coincided with an increase in
homelessness. Authorities need to anticipate these trends (Exhibit 35) and be aware of the potential consequences in order to set appropriate priorities for new investment.

Exhibit 35
SUPPLY/DEMAND TRENDS
Authorities need to anticipate trends in lettings and homelessness

IDENTIFYING GAPS

122. In analysing the future supply of and demand for lettings, a similar, but less detailed, approach to that advocated for allocations management should be used. LAs must disaggregate the forecasts by type of accommodation e.g. elderly/sheltered, one-bed, two-bed and 3+ bed. Larger authorities will also need such information for individual neighbourhoods. The forecasts, covering three to five years, should incorporate:
— future stock levels, as affected by right-to-buy sales;
— relets as percentages of existing council stock;
— nominations to housing association relets;
— lettings arising from any committed local authority and housing association new build;
— homeless acceptances;
— new priority applications to the waiting list each year;
— transfer demand.

OPTION IDENTIFICATION AND EVALUATION

123. There are many different options which can narrow the gap between supply and demand. Some help by diverting demand, either directly or indirectly. In general, the effect on spending power is easy to determine. The main difficulty is in estimating the additional lettings that will be released. The identification of a cost/benefit figure for new build for rent (usually in
the form of a grant to a housing association) is a useful starting point because it acts as an upper limit for other options. If the cost/benefit works out higher, then there is no point pursuing alternative options. But that will not often be the case, so the authority should then systematically assess the merits of other options open to it, such as:

- Housing Advice
- Mortgage Rescue
- Staying-Put Schemes
- Renovating Long Term Voids
- Conversions
- Cash Incentive Schemes
- Encouraging Transfers
- Low Cost Home Ownership Schemes
- Rural Exceptions Sites
- Selective Stock Transfer

New Build for Rent

124. Recently, HAs have been the main providers of new social housing, and LAs who actively supported this enabling role could expect their local associations to benefit from a higher share of the Housing Corporation's Approved Development Programme (ADP) for their area. Such LA support can take various forms, including Local Authority Housing Association Grant (LA HAG) and land provided free or at less than market value. Such provision does not reduce rent levels because there is a limit, varying between regions, on the level of public subsidy for HA mixed-funded schemes (the current average is 69 per cent), and so such LA funding simply replaces Housing Corporation HAG. But it does enable the Corporation's budget to be stretched, allowing more units to be built within a given budget. It is therefore known as HAG Stretch. In return, LAs typically negotiate enhanced nomination rights.

125. Local Authority HAG, which, unlike normal HAG, is not cash limited, is fully reimbursed by central government, but the value of the grant is set against the LA's spending power. Because a 50 per cent set-aside applies to land sales, LAs which have suitable housing land which they are prepared to contribute would do better to provide it free of charge to a HA than selling it at market value and then using the capital receipt to fund LA HAG because of the improved yield (Exhibit 36).

126. Some LAs have helped to set up development consortia for the purpose of channelling the authority's land resources into new development. One of the earliest and most innovative of these was in Leeds, where the city council contributed its entire land bank, free of charge, to a consortium called Leeds Partnership Homes, consisting of representatives of five local HAs and the City Council. As a result, it has obtained a substantial funding commitment from the regional office of the Housing Corporation. The council also negotiated with the DOE to allow profits from market sale developments to be used to replace part of the private funding, enabling rents to be set at levels which the Council considered affordable. This is referred to as HAG top-up.
127. LAs can also provide a loan, which acts as an alternative to the private financing element of the development. Although the LA can usually provide money at a cheaper rate, such support uses spending power (the whole loan scores against the LA's spending limit) and yet produces no more housing than would have been built using a private sector loan. However, it is one of the few ways in which LAs can help to keep association rents down.

Exhibit 36
THE BENEFITS OF HAG STRETCH
HAG stretch improves the yield from local authority land disposals

<table>
<thead>
<tr>
<th>Assumptions</th>
<th>Option A (LA sells land and uses proceeds for LA HAG)</th>
<th>Option B (LA gives land to HA)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. An authority has 1 hectare of land</td>
<td>£000</td>
<td>£000</td>
</tr>
<tr>
<td>2. Building density is 40 dwellings per hectare</td>
<td>1,200</td>
<td>1,200</td>
</tr>
<tr>
<td>3. Each dwelling costs £80,000 including land</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>4. Land cost per dwelling is £30,000</td>
<td>600</td>
<td>800</td>
</tr>
<tr>
<td>5. HAG grant is 75%; the balance being private finance</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>6. The required HAG is available</td>
<td></td>
<td></td>
</tr>
<tr>
<td>HAG</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Value of LA land</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Usable capital receipt from land sale</td>
<td>600</td>
<td>-</td>
</tr>
<tr>
<td>Private Finance (25%)</td>
<td>600</td>
<td>800</td>
</tr>
<tr>
<td>Total Finance</td>
<td>2,400</td>
<td>3,200</td>
</tr>
<tr>
<td>Number of dwellings</td>
<td>30</td>
<td>40</td>
</tr>
</tbody>
</table>

128. Cost/benefit analysis of LA-funded housing association development requires a comparison between the spending power used with the benefits accruing from the scheme, which can be taken as the LA's nomination rights (although it might be argued that all the lettings were of benefit). On schemes where the LA provides all the public subsidy, the nomination rights might be 100 per cent for ten years, reverting to 50 per cent thereafter. An example of this type was given earlier (Exhibit 34). LAs which provide land at a discount need to determine a value in terms of spending power. For the purpose of this calculation this is taken as the value of the usable capital receipt if the land were sold i.e. 50 per cent of market value.

129. This argument assumes that a housing association nomination and a local authority letting are equivalent. This is, of course, a simplification. A major difference is the relative rent levels. Rents for new housing association tenancies are usually significantly higher than their local authority equivalents, which benefit from rent pooling. This discrepancy, and the lack of the right-to-buy option, can make people on the waiting list, or tenants contemplating a transfer, reluctant to accept housing association lettings. Some local authorities have expressed concern at the affordability of these new rent levels. Tenants often have to rely on housing benefit and the present taper rules may deter some of them from seeking employment.
Housing Advice

130. Housing advice can help to resolve housing problems and prevent homelessness without the need to provide a local authority tenancy. Examples include advising private tenants on protection from eviction, helping those in rent or mortgage arrears with debt counselling, improving poor conditions in the private sector through enforcement action against private landlords and helping people to find their own accommodation on the private market. The Commission survey found that on average advisers dealt with 575 cases each in 1990-91. In 16 per cent of cases the main outcome of the advice was the retention of the home (Table 10).

<table>
<thead>
<tr>
<th>Percentage of households</th>
<th>London</th>
<th>Mets.</th>
<th>Southern shire districts</th>
<th>Northern shire districts</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Accommodation retained</td>
<td>12</td>
<td>11</td>
<td>23</td>
<td>15</td>
<td>16</td>
</tr>
<tr>
<td>2. New home found</td>
<td>13</td>
<td>4</td>
<td>19</td>
<td>43</td>
<td>17</td>
</tr>
<tr>
<td>3. Help with housing costs/financial problems</td>
<td>14</td>
<td>19</td>
<td>15</td>
<td>12</td>
<td>15</td>
</tr>
<tr>
<td>4. Condition of home improved</td>
<td>7</td>
<td>8</td>
<td>6</td>
<td>2</td>
<td>6</td>
</tr>
<tr>
<td>5. Other solution/improvements</td>
<td>13</td>
<td>9</td>
<td>6</td>
<td>1</td>
<td>8</td>
</tr>
<tr>
<td>6. Referred to other agency</td>
<td>9</td>
<td>14</td>
<td>10</td>
<td>1</td>
<td>9</td>
</tr>
<tr>
<td>7. No solution possible</td>
<td>18</td>
<td>14</td>
<td>9</td>
<td>3</td>
<td>12</td>
</tr>
<tr>
<td>8. Outcome unknown</td>
<td>14</td>
<td>21</td>
<td>12</td>
<td>23</td>
<td>17</td>
</tr>
<tr>
<td></td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: Audit Commission Survey

131. In a number of other cases, such as help with housing costs, it seems likely that homelessness might have been prevented. Although the large number of cases where the outcome was unknown means that these figures should be treated with caution, they do suggest that housing advice may be very cost effective. In only 12 per cent of cases was no solution possible. If a housing adviser deals with 500 new cases each year and finds a solution other than the provision of a council tenancy for only 10 per cent (50) of those clients, then the cost of each saved tenancy is about £500, which compares very favourably with the alternatives, e.g., the cost of cash incentives to tenants to buy in the private sector.

132. While all the inner London authorities surveyed provided housing advice, a third of those in outer London and a half of those in the southern shires did not provide an advice service, despite having serious homelessness problems. (Table 11). There appears to be considerable scope for extending advice services in outer London and in the Southern Shires.

133. Mortgage lenders could also find it worth their while to support the provision of housing advice to mortgagees either through the local authority or Citizens Advice Bureaux. Until recently housing advice was primarily of benefit to private sector tenants and the geographical spread of its provision was skewed to reflect this. But now that many mortgagees would benefit from such advice, mortgage lenders could find it beneficial to support the provision of advice in areas where little support currently is available.
### Table 11

**HOUSING ADVICE AND LETS TO HOMELESS HOUSEHOLDS**

<table>
<thead>
<tr>
<th></th>
<th>Provides advice</th>
<th>40% or more of new lets to homeless</th>
</tr>
</thead>
<tbody>
<tr>
<td>Inner London</td>
<td>100%</td>
<td>92%</td>
</tr>
<tr>
<td>Outer London</td>
<td>69%</td>
<td>95%</td>
</tr>
<tr>
<td>Southern shire districts</td>
<td>50%</td>
<td>35%</td>
</tr>
<tr>
<td>Northern shire districts</td>
<td>36%</td>
<td>22%</td>
</tr>
<tr>
<td>Metropolitan districts</td>
<td>77%</td>
<td>17%</td>
</tr>
</tbody>
</table>

*Source: Audit Commission Survey and HIP returns*

### Mortgage Rescue

134. Two new mortgage rescue schemes were recently announced. Mortgage lenders can lease empty repossessed homes to housing associations, and direct payments can be provided to lenders for those in receipt of income support. The Council of Mortgage Lenders (CML) has recommended to its members that they should not repossess those in receipt of income support and that they should provide funds to support the provision of rented or shared ownership schemes for former borrowers.

135. Mortgage rescue schemes, run by local authorities and housing associations, aim to prevent owner occupiers from losing their homes through mortgage arrears and becoming eligible for council housing. Houses are remortgaged on a shared ownership basis so that owners can afford to stay in the property and possibly repurchase the rest of the equity if their financial position improves.

136. Twelve per cent of the homeless households accepted by local authorities in England during 1991 became homeless because of mortgage arrears. This represented around 17,000 households, double the number of two years earlier. While it is not possible to estimate how many of the households would have been helped to keep their homes by mortgage rescue schemes, it seems likely that the number would run into several hundreds, at a cost considerably less than the provision of a council tenancy because of the equity share which the owner retains (Ref. 18). However, the Commission's survey identified very few LAs who had or were planning such schemes.

### Staying Put Schemes

137. 'Staying Put' (Care and Repair) schemes aim to help elderly home owners to undertake essential repairs and improvements. This often helps them to remain in their own homes instead of being rehoused into social housing. DOE research found that such schemes could be very cost effective (Ref. 19). Where possible they mobilise private funding, including contributions from the owners. In cases monitored by the DOE research, 70 per cent had some contribution from the owner and in half the cases it was the sole source of finance. Other sources included loans, DSS grants and charitable funds. Improvement grants were only used in 14 per cent of cases but accounted for 37 per cent of the cost of all work completed.

138. The schemes had a significant impact on helping owners to stay in their homes: 43 per cent said they would have had difficulty in staying without the work and 9 per cent said they
would have had to move. The average scheme employed the equivalent of 2.5 staff at a cost in 1989-90 of £ 40-45,000. The DOE supports this approach and shares the administrative cost of approved schemes.

Renovating Long Term Voids

139. Where void properties require major repair or renovation work before reletting, targeting investment on them can be one of the most cost effective means of generating additional lettings. This was recognised in the DOE's homelessness initiative which targeted additional investment through SCAs to bring voids back into use.

140. HIP returns indicate that in England there were 30,989 void properties as at 1/4/91 which had been empty for more than six months (Table 12). In areas where a shortage of housing is the most pressing problem there is a strong case for giving priority in budgets to bringing these properties back into use and for continuing special HIP allocations for this purpose.

Table 12

<table>
<thead>
<tr>
<th>VACANT DWELLINGS</th>
<th>Void more than 6 months</th>
<th>Void more than 12 months</th>
</tr>
</thead>
<tbody>
<tr>
<td>Inner London</td>
<td>12,749</td>
<td>6,673</td>
</tr>
<tr>
<td>Outer London</td>
<td>1,834</td>
<td>1,634</td>
</tr>
<tr>
<td>Mets.</td>
<td>20,184</td>
<td>16,514</td>
</tr>
<tr>
<td>Southern shire districts</td>
<td>3,318</td>
<td>2,844</td>
</tr>
<tr>
<td>Northern shire districts</td>
<td>5,477</td>
<td>3,324</td>
</tr>
<tr>
<td>England</td>
<td>43,562</td>
<td>30,989</td>
</tr>
</tbody>
</table>

Source: DOE, HIP Returns.

141. The cost of renovation varies greatly but even where special funding is not available, it can still be a good option, even though the life of the property may be shorter. The effect on spending power is the capital cost of the renovation work offset by capital receipts from right-to-buy sales. And in evaluating benefits, the effect of right-to-buy sales on lettings must be allowed for. Although assumptions will have to be made about sales rates and turnover of stock, sensitivity analysis will often show that the answers are reasonably robust (Exhibit 37). Reducing long term voids can also provide a subsidy benefit – if long term voids were held to 1 per cent of stock, then nearly all authorities with void intervals within the Commission's benchmarks would achieve the two per cent void target (Exhibit 38).

Conversions

142. The supply/demand match can be improved by converting property which no longer meets priority needs into more useful accommodation. For example, LAs could follow the owner-occupied sector and enlarge dwellings by loft conversions. The cost/benefit calculation is very similar in principle to renovating voids. The difference is that the lettings gained are at the expense of lettings of another type. But since conversion would not be considered if the accommodation lost helped to meet priority needs, it is safe to assume that the lettings lost have much less value in comparison to those gained. Conversions can also be used indirectly to encourage transfers (see para. 149).
Exhibit 37
EVALUATING THE RENOVATION OF LONG TERM VOIDS
Sensitivity analysis will test the robustness of the results to changes in assumptions

Assumptions
1. The LA renovates 100 long-term void properties, average cost £25,000
2. Market value is thereby increased from £20,000 to £40,000
3. The LA benefits from the initial lets plus subsequent turnover (3% p.a.)
4. The increase in lettable stock is eroded by right-to-buy sales (3% p.a.)
5. Revenue effects are cancelled out by changes in subsidy
6. Cost of capital = 5%

Notes: 1. Year 0 cost = Renovation cost + Opportunity cost of disposal
   = 100 x (25,000 + 25% x £20,000) = £3m
2. Year 1 cost = Usable capital receipt
   = Sales x market value x (1-RTB discount) x 25% x discount factor
   = 3 x £25,000 x 25% x 0.952 = – £17,900
   (N.B. cost floor operative initially)

Exhibit 38
LONG AND SHORT TERM VOIDS
If long term voids were held to 1% of stock, then nearly all authorities with void intervals within Commission benchmarks would achieve the government's 2% void target

Source: DOE, HIP returns 1990-91
Cash Incentive Schemes

143. LAs can offer their own tenants a cash sum (previously called a portable discount) to help them to purchase a home on the open market, and hence release a tenancy. A cash incentive scheme should ideally be targeted at those who do not have sufficient resources to buy on the open market (but who can, with the grant assistance, afford the necessary mortgage). Applicants are likely to fall into two groups: those who, for some reason, do not wish to buy their current accommodation, and are therefore likely to remain as council tenants for some time; and those who are waiting to earn enough discount entitlement to exercise the right-to-buy. In addition to the immediate benefit of the letting, account must be taken of the amended pattern of subsequent vacancies that would ensue (Exhibit 39).

Exhibit 39
CASH INCENTIVE SCHEME
The cost/benefit of a cash incentive scheme depends on the subsequent pattern of sales and lettings, as well as the immediate benefit

<table>
<thead>
<tr>
<th>Option</th>
<th>Assumptions</th>
<th>Turnover rate: Original – 3%</th>
<th>New tenants – 2%</th>
<th>Sales rate: Original – 3%</th>
<th>New tenants – 2%</th>
<th>Market value of LA property: £60,000</th>
<th>Right-to-buy discount (average): 50%</th>
<th>Cost of capital (real): 5%</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>No incentive</td>
<td>With incentive</td>
<td>Difference</td>
<td>No incentive</td>
<td>With incentive</td>
<td>Difference</td>
<td>No incentive</td>
<td>With incentive</td>
</tr>
<tr>
<td>Initial dwellings</td>
<td>100</td>
<td>100</td>
<td>–</td>
<td>60</td>
<td>45</td>
<td>15</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sales</td>
<td>60</td>
<td>45</td>
<td>15</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Disc. sales value</td>
<td>(255)</td>
<td>(187)</td>
<td>68</td>
<td>1,500</td>
<td>1,500</td>
<td>0</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash incentive</td>
<td>–</td>
<td>1,500</td>
<td>1,500</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>(255)</td>
<td>1,313</td>
<td>1,568</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Initial lettings</td>
<td>–</td>
<td>100</td>
<td>100</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Relets (30yrs)</td>
<td>60</td>
<td>45</td>
<td>15</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>60</td>
<td>145</td>
<td>85</td>
<td>85</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Notes
1. Sales value (£255,000) = Sales (60) x Right-to-buy price (£30,000) x Usable % (25%) x Av. discount factor (0.57)
2. Relets = 30 years x Average lets p.a. (2.0)

144. These schemes are targeted on areas with the greatest problems of housing shortage. Returns to the DOE by authorities who operate these schemes show a range from 0.1 percent to 0.7 per cent of tenants taking up a cash incentive each year. If all authorities in London and the South East operated these schemes and achieved a take up of 0.3 per cent an additional 3,000 lettings a year would be brought forward. There would be an initial demand for such schemes and once this had been met it might be reasonable to expect a continuing demand from perhaps only 0.1 per cent of tenants a year, achieving a flow of an additional 1,000 lettings a year. The success
of these schemes indicates the need to continue to allocate funds to them. The cost in the first year would be £32 million and in subsequent years £11m.

145. Take-up will be affected by the size of the cash incentive. If increasing the grant from, say, £15,000 to £20,000 increases the response from 25 to 30 tenants then the extra five have cost on average an extra £45,000 each (Exhibit 40). It is thus the marginal cost which LAs should take into account when assessing the cost/benefit of a scheme.

Exhibit 40
SETTING GRANT RATES FOR CASH INCENTIVES
In fixing the level of grant rate, it is the marginal cost which is the important factor

<table>
<thead>
<tr>
<th>Grant rate (£000)</th>
<th>No. acceptances</th>
<th>Total cost (£000)</th>
<th>Extra cost (£000)</th>
<th>Extra acceptances</th>
<th>Marginal cost (£000) = Extra cost/Extra acceptances</th>
</tr>
</thead>
<tbody>
<tr>
<td>5</td>
<td>2</td>
<td>10</td>
<td>10</td>
<td>2</td>
<td>5.0</td>
</tr>
<tr>
<td>10</td>
<td>10</td>
<td>100</td>
<td>90</td>
<td>8</td>
<td>11.2</td>
</tr>
<tr>
<td>15</td>
<td>25</td>
<td>375</td>
<td>275</td>
<td>15</td>
<td>18.3</td>
</tr>
<tr>
<td>20</td>
<td>30</td>
<td>600</td>
<td>225</td>
<td>5</td>
<td>45.0</td>
</tr>
<tr>
<td>25</td>
<td>35</td>
<td>875</td>
<td>275</td>
<td>5</td>
<td>55.0</td>
</tr>
</tbody>
</table>

Encouraging Transfers

146. Transfers do not generate extra properties but can free those of a type that are in greater demand. LAs can provide some limited incentives. LAs need to seek out tenants who might find a transfer attractive and whose transfer would be of benefit to the LA. Very few LAs have undertaken occupancy surveys, which can help to target suitable tenants. Mole Valley DC undertakes an annual survey, which achieves 100 per cent coverage at low cost (Box D, overleaf).

147. Improvement work can be a cost effective alternative if it encourages transfers. Transfer incentives are only likely to be effective if the authority makes attractive properties available in good locations. Many authorities have elderly person’s accommodation which they can let only to people from the waiting list, and even then only to those with such a low priority that they would be unable to obtain a more attractive dwelling. However, if the property is improved, it may attract transfers of tenants under-occupying family accommodation. For example Welwyn Hatfield DC has improved some of its elderly person’s accommodation and extended it from one to two bedrooms so as to attract transfers of the elderly from their family accommodation.

148. The benefits derive from bringing forward lettings that would otherwise have happened later. And unlike cash incentives, which yield a one-off benefit, the improved property will remain an inducement when it comes to be relet (Exhibit 41, overleaf). However, improvement works may increase the likelihood of right-to-buy sales and as one field study site reported, improvements which do not meet expected standards can be a waste of money – another argument for good intelligence about tenants’ views.

149. The conversion of property, especially for non-elderly households, can also help. The most recent Labour Force Survey shows that 48 per cent of those with two spare bedrooms were under retirement age. The transfer of younger tenants can be advantageous because the benefit
Mole Valley DC wanted to know more about under-occupation in the council stock, to enable them to encourage transfers. Twelve years ago, it decided to mount an annual survey of the age and relationship to the tenant of each member of the household.

**Data Collection**

Data collection is done initially by means of a postal questionnaire; 10 per cent of households (4,400) are surveyed every month except August and December. Now that tenants are used to it, an initial response rate of 70 per cent is achieved, and 100 per cent response is effected via reminders, and follow-up, including door-knocking. The data is recorded in the rent collection system. Since age is entered as 'year of birth', no updating is required unless a change (usually a new baby or a child leaving home) has taken place. The annual cost is as follows:

<table>
<thead>
<tr>
<th>Annual Costs</th>
<th>£</th>
<th>Notes</th>
</tr>
</thead>
<tbody>
<tr>
<td>Printing</td>
<td>20</td>
<td></td>
</tr>
<tr>
<td>Postage</td>
<td>780</td>
<td>Bulk mailing discount</td>
</tr>
<tr>
<td>Staff Costs</td>
<td>2,000</td>
<td>2 days per month</td>
</tr>
<tr>
<td>Total Cost</td>
<td>2,800</td>
<td>£0.64 per dwelling</td>
</tr>
</tbody>
</table>

**Analysis**

The main analysis is a comparison of the actual number of bedrooms (data available from the repairs system) with an estimate of the number required. This enables the authority to produce estimates of the extent of under-occupation, for example:

<table>
<thead>
<tr>
<th></th>
<th>2-bed units</th>
<th>3-bed units</th>
<th>4-bed units</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 spare bedroom</td>
<td>34%</td>
<td>20%</td>
<td>3%</td>
</tr>
<tr>
<td>2 spare bedrooms</td>
<td>15%</td>
<td>14%</td>
<td>8%</td>
</tr>
<tr>
<td>Total ‘under-occupied’</td>
<td>49%</td>
<td>34%</td>
<td>11%</td>
</tr>
</tbody>
</table>

**Benefits**

The information allows the authority actively to encourage transfers by writing to potential candidates. For new sheltered schemes, 50-87 per cent of lets have been made to transfers. The authority believes that a significantly higher transfer rate is achieved, because many people not registered on the transfer list are nevertheless happy to consider a transfer, especially when they realise that expenses will be paid.

comes from freeing the letting of a useful property earlier than would otherwise be the case. For an elderly under-occupier this might mean 5-10 years, but a couple in their mid 40s might remain council tenants for another 25 years. Some authorities have recognised this and have refurbished difficult-to-let flats, designating them as 'No Child' blocks. The cost/benefit of conversion work to encourage transfers is calculated in a similar way to improvement work. Both can be combined
with cash grants. Solihull MDC discovered from a survey of selected areas that 42 per cent of households had two or more spare bedrooms, and encouraged over seventy tenants in family accommodation to move to ‘Mature Persons’ blocks comprising one or two bedroom flats. These had been converted to a high standard, with door entry systems and a community room; a house supervisor was also provided.

**Exhibit 41**

**ENCOURAGING TRANSFERS VIA IMPROVEMENT WORK**

The improved property will remain an inducement when it comes to be relet

<table>
<thead>
<tr>
<th>Option</th>
<th>The LA improves 100 units of hard-to-let elderly person’s accommodation (void rate 30%) with shared facilities, by modernising and creating 70 larger self-contained units.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Benefits</td>
<td>On reletting, the units now attract transfers from under-occupiers of family accommodation, thus allowing priority need families to be rehoused. No priority elderly lettings are lost since a relative surplus exists.</td>
</tr>
<tr>
<td>Cost</td>
<td>Capital: £30,000/new unit Revenue: Nil (loss of management and maintenance subsidy on 30 dwellings balanced by reduction in actual costs. Notional and actual rents unchanged)</td>
</tr>
<tr>
<td>Effectiveness measure</td>
<td>Extra priority lets = No. units (70) x turnover rate (10%) x period (20yrs²) = 140 Loss of spending power = No. units (70) x cost/unit (£30,000) = £2.1m</td>
</tr>
</tbody>
</table>

**Notes:**
1. Also benefits stock condition and hence reduces future maintenance bill
2. Period of benefit assumed to be 20 years

150. Legislation enables councils to offer a *cash grant* but only as a contribution to removal expenses, and as a result grants are much smaller than cash incentives to encourage owner-occupation. Grants should be targeted. If there is a queue of people eagerly waiting to transfer to newly built accommodation, an additional financial incentive is clearly not required.

151. Many authorities attest to the importance of a high level of customer support in aiding the transfer process. Elderly people can be concerned about the potential disruption caused by the move. Officers can advise on the necessary arrangements, discuss the use of any grant and accompany them to the prospective property. This might require a number of visits by officers, but the associated cost is still likely to be low in comparison with other initiatives. Authorities ought to prepare a marketing pack making clear the grants for new curtains, carpets etc. that are available.

152. Rent differentials may affect the willingness of households to transfer. If a smaller property does not carry a significantly lower rent, it is another good reason for not moving. Yet in only one in four LAs is the rent differential between three bed houses and two bed flats more than 15 per cent (Exhibit 42, overleaf).

**Low Cost Home Ownership Schemes**

153. Research by the ADC suggests that 20 per cent of those who cannot afford to buy outright could afford shared or low cost home ownership (Ref. 3). But there are a number of reservations about these programmes. They need to be targeted with care to reach those who
RENT DIFFERENTIALS

In only one in four authorities is the difference in rent between a 3 bedroom house and a 2 bedroom flat greater than 15%.

Source: CIPFA HRA Rent Statistics (April 1991)

would not otherwise have been able to buy in the private market. If the costs of shared ownership are no lower than those of second hand homes at the lower end of the market then this objective is not achieved. Often the most effective use of low cost and shared ownership schemes is to release lettings in social rented homes by giving priority to purchasers who are local authority or housing association tenants. While these can be valuable initiatives, it is not possible to estimate their potential impact at the national level.

154. There are a number of variants of Low Cost Home Ownership Schemes, including shared ownership, leasehold for the elderly, mortgage rescue schemes, Do-It-Yourself Shared Ownership (DIYSO) and low cost sale. The subsidy per unit can be significantly lower than for rented accommodation. Their relevance for existing tenants is limited by the relative attractiveness of right-to-buy, although some authorities, e.g. Wycombe, have marketed such schemes successfully. Targets can include first-time buyers with moderate incomes, key workers and elderly owner-occupiers.

155. Fifteen per cent of all new households under 30 are estimated to be able to afford some form of low cost or shared ownership (Ref 3). Shared ownership has limited application in areas where land values are low because even a subsidised new property may be more expensive than an older property at full price. Conversely in high price areas even a share of the equity can be too expensive for many households. The Housing Corporation’s stipulation that HAs achieve an average equity of at least 50 per cent can be restrictive in these circumstances. LAs can target different groups depending on how low a share they allow to be sold. A 25 per cent share can involve similar charges to rented property. Stock is likely to turn over slowly, often without the shared-owner purchasing any more of the equity. Provided that these schemes do meet priority need, they are very cost effective (Exhibit 43).
156. Fixed equity shared ownership can be even more beneficial, but until recently has only been allowed if no public subsidy is provided. DOE Circular 7/91 has introduced a new rule for housing associations permitting staircasing of equity to be limited to 80 per cent of market value in small communities with less than 3,000 inhabitants.

Exhibit 43

SHARED OWNERSHIP SCHEMES

Shared Ownership can be very cost effective, provided that the schemes meet priority housing need

<table>
<thead>
<tr>
<th>Option</th>
<th>The LA builds 100 new properties and makes them available to existing tenants and priority waiting list cases on shared ownership terms.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Assumptions</td>
<td>Assumptions</td>
</tr>
<tr>
<td>Development Cost</td>
<td>£80,000</td>
</tr>
<tr>
<td>Cost of capital (real)</td>
<td>5%</td>
</tr>
<tr>
<td>Equity Share</td>
<td>25% 50% 75%</td>
</tr>
<tr>
<td>Staircasing rate (1)</td>
<td>1% 5% 10%</td>
</tr>
<tr>
<td>Turnover rate (2)</td>
<td>3% 4% 4%</td>
</tr>
<tr>
<td>Sales (staircasing to 100%)</td>
<td>21 79 96</td>
</tr>
<tr>
<td>Costs (£000)</td>
<td>Cost to LA (£6m) = No of units (100) x Development Cost (£80,000) x LA Equity Share (75%)</td>
</tr>
<tr>
<td>Benefit</td>
<td>Total lets (30 years) (5) = 178 163 138</td>
</tr>
<tr>
<td>Cost/benefit</td>
<td>Cost/let (£000) = 29.1 12.9 4.9</td>
</tr>
</tbody>
</table>

Source: 1. Shared-owners can become owner-occupiers by buying out the LA share of the equity. People with low shares are much less likely to be able to do so.
2. If people move on, other potential shared-owners can be re-housed.
3. Cost to LA (£6m) = No of units (100) x Development Cost (£80,000) x LA Equity Share (75%)
4. Sales value (£828,000) = Sales (21) x Cost of equity share (£60,000) x Av. discount factor (0.66)
5. Relets (178) = Initial lets (100) + 30 years x Average lets p.a. (2.6)
6. Revenue effects are assumed to be cancelled out by the subsidy system.

157. Leasehold for Elderly (LSE), is a shared equity scheme often providing warden supervision. It can address the needs of elderly people who wish to retain a stake in owner occupation and relieve the pressure on LA rented accommodation. LAs can provide schemes themselves or help HAs to do so. But to date, very few LAs have carried out or have made plans for LSE, especially in northern shire districts (Table 13, overleaf). Too many authorities accept elderly people for rented accommodation without considering whether there are other, cheaper options. LSE represents an attractive and relatively inexpensive potential solution for some people. However, elderly people of all sorts of means apply to councils for rehousing and identifying the right solution requires considerable information, and expertise in counselling. LAs should consider whether they have the necessary skills to perform this task effectively.
158. Low Cost Sale (LCS) is the outright sale of a property at less than market value. A general consent exists for LAs to sell at up to a 30 per cent discount to certain priority groups e.g. first-time buyers. Although the consent requires a claw-back if purchasers sell on within three years, windfall profits can be achieved relatively quickly if the candidates have not been carefully selected. But LAs can set up a resale covenant scheme which requires that the property must be offered to the LA in the first instance, so that they can nominate another in-need household. The purchaser receives the full market value of the property less a proportion pro-rata to the original discount. Although such covenants can be 'bought out', this mechanism at least provides the LA with the opportunity of achieving value for money. Some private developers, e.g. Lovell's, operate the scheme on behalf of LAs. In terms of effectiveness, LCS is similar to a fixed equity shared ownership scheme where the discount matches the equity share retained by the LA, but under shared ownership, the balance of the equity is rented.

Table 13:
LOCAL AUTHORITY LEASEHOLD FOR THE ELDERLY SCHEMES

<table>
<thead>
<tr>
<th>Percentage of LAs</th>
<th>London</th>
<th>Mets. + Big 11</th>
<th>Shire Districts South</th>
<th>Shire Districts North</th>
</tr>
</thead>
<tbody>
<tr>
<td>Not considered</td>
<td>50</td>
<td>62</td>
<td>48</td>
<td>61</td>
</tr>
<tr>
<td>Rejected</td>
<td>25</td>
<td>16</td>
<td>13</td>
<td>23</td>
</tr>
<tr>
<td>Under consideration</td>
<td>6</td>
<td>3</td>
<td>9</td>
<td>10</td>
</tr>
<tr>
<td>Carried out/planned</td>
<td>19</td>
<td>19</td>
<td>30</td>
<td>6</td>
</tr>
<tr>
<td>Total</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: Audit Commission Survey

Rural Exceptions Sites

159. Some rural areas have particular problems in meeting housing need. Local income levels can be much too low to afford open market prices. And in many cases, there is very little rented accommodation, much of the council stock having been subject to right-to-buy sales. The government has encouraged the identification and use of exceptions sites to provide a source of cheap land. However, DOE Circular 7/91 (Ref. 20) makes it clear that the government envisaged only 'very limited exceptions to established policies of restraint'. A particular problem for some authorities, which the circular does not resolve, is the conflict between housing and environmental objectives in the Green Belt.

160. Local authorities cannot place restrictions on the tenure mix of sites which have the benefit of planning permission for housing development. However they can promote the identification of further sites not zoned for housing in the local plan which could be used to support low-cost housing on the edge of villages. Such sites would not gain unfettered planning permission and hence have a lower value which can feed through into a lower priced dwelling. Various criteria have to be met before permission is given including detailed surveys which identify a need which cannot be met by other means. Restrictions are placed on shared ownership dwellings which ensure that they are re-sold only to local people at the same proportion of market value. A housing association or some other similar body is necessary to ensure the long term ownership remains in local control. Sites can also be used for rented housing provided that further subsidy, usually in the form of HAG, is available.
161. The key task in designing a funding package is to check income levels of potential applicants so that the right mix of tenures is provided and that costs to the consumer are affordable. The DOE's recent evaluation of the first two years of the initiative (Ref. 21) suggests that this has not always been the case. The research found that land costs were often much higher than expected, and, as a result, rental or shared ownership costs were not affordable by the original target group. It suggests limits of £50 per week for rented housing or an equity of £30-35,000 for shared ownership, but notes that few LAs have defined what 'affordable' means.

162. There is a number of other barriers to the provision of affordable rural housing. Landowners can refuse to sell because of a site's hope value. Parish councils can be deterred from involvement because of the effort required to undertake local surveys and yet without local involvement there will be resistance to externally imposed solutions. These problems mean that bringing such schemes to fruition can be a long and complex process. District Councils therefore have a valuable enabling role to play (Exhibit 44). Appendix 5 gives further details.

Exhibit 44
RURAL HOUSING INITIATIVES

<table>
<thead>
<tr>
<th>District councils have a valuable enabling role</th>
</tr>
</thead>
<tbody>
<tr>
<td>Activity</td>
</tr>
<tr>
<td>Creating Awareness</td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td>Planning</td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td>Local needs survey</td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td>Support</td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td>Funding</td>
</tr>
<tr>
<td></td>
</tr>
</tbody>
</table>

Selective Stock Transfer

163. Right-to-buy sales eventually reduce the numbers of relets available, although the slow turnover of two and three bed dwellings means that most purchasers would otherwise have remained as tenants for quite some time. Some LAs have considered protecting their stock from the right-to-buy by transferring it as vacancies arise, usually to a registered housing association (a so-called trickle transfer). Alternatively, the authority can transfer whole blocks of newly built property.

164. The transfer price of vacant stock is calculated as the open market value less a proportion based on the maximum public subsidy percentage for housing association development. In this way, the private finance needed by the association is similar to new development, ensuring that rent levels are also comparable. The capital receipt for the local
authority is only likely to be 25 per cent of market value – usually well below the right-to-buy price, and also lower than the voluntary transfer price for tenanted stock! The reason for this apparent anomaly is that, in a voluntary transfer, tenants retain the right-to-buy, and these receipts add to the HA's expected cashflow. The selective transfer, by deliberately avoiding right-to-buy sales, has a lower valuation.

165. Trickle transfers would be slow in bringing benefits. Had the stock remained in LA ownership, the new tenants would have taken several years to accumulate a significant right-to-buy discount. Moreover, in many authorities, many new tenants are on income support and could not contemplate purchase. As a result, the effect on total lettings is marginal in the first 20 years, but can be significant over a 50 year period. Of course, the transferred tenancies will not all be under the LA's control, and it is quite possible that the LA may have nomination rights to fewer lettings than it would have if the transfer had not taken place. The success of the transfer thus depends on the LA taking a broader view of the benefits than LA nominations alone.

**OPTION COMPARISON AND PRIORITISATION**

166. Having carried out an option analysis, an authority will know how each option compares in terms of the cost/benefit measure it has defined. It can use this information to construct a provisional programme for rehousing within the resource limits previously defined. The supply/demand analysis will have indicated the type of provision required. Having decided what is needed, the authority must decide how best to provide it, and the cost/benefit calculations will be a key criterion in doing this, although the authority may well wish to take other non-financial considerations into account.

167. All options, with the exception of new build for rent, will be limited in the extent to which they can meet need (e.g. cash incentives or low cost home ownership schemes will appeal to only a few households), and authorities will have to estimate their potential impact in drawing up the programme. Starting with the most cost effective, options will be added into the programme until the resource limit is reached. If the cheaper options are exhausted, then the remainder of the programme is likely to be taken up by housing association new build for rent (Table 14).

<table>
<thead>
<tr>
<th>Table 14</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>CREATING A PROVISIONAL REHOUSING PROGRAMME</strong> (Illuustrative: Budget £1m)</td>
</tr>
<tr>
<td>Each option</td>
</tr>
<tr>
<td>---</td>
</tr>
<tr>
<td><strong>Option</strong></td>
</tr>
<tr>
<td>Housing advice</td>
</tr>
<tr>
<td>Cash incentives</td>
</tr>
<tr>
<td>Improvement work</td>
</tr>
<tr>
<td>Long-term voids</td>
</tr>
<tr>
<td>25% Shared ownership</td>
</tr>
<tr>
<td>Conversion work</td>
</tr>
<tr>
<td>New Build for Rent</td>
</tr>
</tbody>
</table>

168. The central projection described in Chapter 1 estimated the need for 74,000 new social dwellings each year and noted that the Housing Corporation Programme would reach
44,000 in 1993-94. This section has shown how greater efficiency and effectiveness by local authorities can narrow the gap. Estimates can be made of the impact of some measures designed to increase the number of available lettings. Taken together they might lead to an additional 20,000 lettings in the first year, 17,000 in the second year and 7,000 in the third year (Table 15). The programme for renovating voids and cash incentive schemes would depend on capital allocations of £100m being made available (or on the diversion of existing funds to this purpose).

<table>
<thead>
<tr>
<th>Table 15</th>
<th>ADDITIONAL LETTINGS</th>
<th>ESTIMATES</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Year 1</td>
<td>Year 2</td>
</tr>
<tr>
<td>Reduce relet periods</td>
<td>10,000</td>
<td>10,000</td>
</tr>
<tr>
<td>Repossess illegally occupied homes</td>
<td>4,000</td>
<td>2,000</td>
</tr>
<tr>
<td>Renovate voids</td>
<td>3,000</td>
<td>2,000</td>
</tr>
<tr>
<td>Cash incentives</td>
<td>3,000</td>
<td>3,000</td>
</tr>
<tr>
<td>Total</td>
<td>20,000</td>
<td>17,000</td>
</tr>
</tbody>
</table>

Source: Audit Commission estimates

169. Around 37,000 lettings could therefore be made available over the next two years. Additional lettings on that scale could have a significant impact on meeting shortfalls in the need for social housing over that period, pending the planned increased in output by housing associations. In addition there could be a reduction in demand for lettings resulting from programmes of housing advice, mortgage rescue and staying put schemes that cannot at present be quantified nationally. So local authorities themselves could, within their available resources, make a sizeable impression on unmet demand for social housing in the short-term. But for 1995-96 and beyond, even the most optimistic forecast of annual social housing output – 62,000, including 5,000 from LA new build or LA HAG – falls 12,000 units short of the Commission's estimate of requirements (Exhibit 45).

Exhibit 45
SOCIAL HOMES: NEEDS AND PROVISIONS
There will be a shortfall of at least 12,000 social homes a year from the mid 1990s

Source: Housing Corporation plans, AC estimates
D: LOCAL AUTHORITY STOCK CONDITION OPTIONS

170. The 1991 HIP guidance notes stated that LAs should look increasingly to the private sector to help solve their problems, not only in providing new stock, but also in helping to find innovative ways of tackling stock condition problems. The potential contribution of any such options must be seen within the context of the authority's problems as a whole. The difficulty for many is simply one of the scale of the backlog in comparison with the available resources. Solutions other than solely LA funded maintenance are needed if the gap cannot be funded internally via rent increases and efficiency improvements. Authorities with problem estates, suffering from multiple deprivation, probably require more radical approaches than are associated with conventional maintenance programmes.

171. Too many authorities' strategy statements reach the conclusion that needs far outweigh resources, and conclude by demanding substantially more support than is available from central government. As a result, many do not have a viable plan for remedying the problems of their stock.

172. In comparison with rehousing options, where the evaluation of alternatives can be satisfactorily based on the numbers of lettings of an appropriate type provided, judging the performance of a stock condition strategy is more complex. For a start, determining appropriate standards for the range of different stock types and circumstances is a subjective process, and one which is liable to vary over time as expectations change. Further, the evaluation of solutions to problem estates inevitably requires not only an assessment of stock condition, but also the related social and economic issues. But authorities can make judgements about relative conditions and determine how many properties are in an unsatisfactory condition.

173. LAs need not assume that all stock has to be retained in LA ownership. One way of improving conditions is to transfer or sell it to another landlord. Demolition might also be considered a satisfactory solution in some circumstances. The negative side of such options is the loss of social housing. In the past many authorities outside London with acute condition problems had a surplus of housing; this is less true today but some authorities still have a surplus of certain types of property.

174. Tenant participation is a key stage in the evaluation process. Tenants should be consulted on the planned building works. Some LAs, for example Eastbourne District Council, have been able to give tenants a menu of improvements from which to choose in return for specified rent increases. Tenants should also be consulted on environmental works and on any other projects that may be appropriate. Some estates suffer from physical and social problems and the promotion of economic and social activity can be as important as repair and modernisation. Estate Action pays particular regard to these aspects.

ESTATE ACTION

175. The DOE's Estate Action programme was started in 1985 to help improve conditions and management on run down estates. It is intended to achieve a high level of physical improvements, better and often more intensive management and to tackle not just housing conditions but also local social and economic problems. The DOE's Estate Action handbook (Ref. 13) describes how the range of issues can be brought together in an option appraisal.
Appraisals should involve the tenants, and should take into account the social and economic development of the estate and the management arrangements, as well as its physical condition.

176. Since 1986-87 funds have been top sliced specifically for this programme. These funds have grown from £45 million in 1986-87 to £364 million in 1992-93, which will help to finance the improvement of 75,000 dwellings in 140 new schemes. The private sector has worked in partnership with councils on about one in five of these schemes and has taken over and improved about 20,000 homes. Estate Action is supported by the DOE by means of SCAs for the first year and by enhancement of BCAs thereafter. However, LAs are expected to demonstrate commitment and to support the balance of the scheme from their own resources. Thus while LAs have an incentive to bid for Estate Action projects (because of the extra resources that are made available), there is an opportunity cost in terms of the other projects that have to be foregone in order to provide the LAs contribution. LAs also have to invest considerable time in scheme preparation (see para. 86).

HOUSING ASSOCIATION RENOVATION

177. Housing associations have previously undertaken a considerable volume of renovation work particularly in the inner cities. They have mainly purchased and improved private sector property but they have also acquired and improved some LA stock which LAs cannot afford to improve themselves. However, they have cut back on their renovation work because the new HAG regime obliges them to bear the risks and uncertainty of any scheme. Rehabilitation work is particularly prone to such risks. Renovations completed by HAs fell from nearly 12,000 in 1982-83 to less than 5,000 in 1990-91, and this decline is likely to continue.

HOUSING ACTION TRUSTS

178. Housing Action Trusts (HATs) were introduced by the Housing Act 1988 to deal with some of the worst run down estates. Based on the model of Development Corporations, each HAT would be managed by a small expert body and would take over an area, channel major capital resources into improving it over a three to five year period and then sell it to another long-term landlord.

179. In July 1988, the Secretary of State announced he was considering setting up HATs in Lambeth, Southwark, Tower Hamlets, Leeds, Sandwell and Sunderland. There was very strong opposition from local authorities and tenants, based on rejection of what was seen as the imposition of solutions by central government and fears that after improvement there were no guarantees that tenants would be given the option to return to the local council. Tenants feared an uncertain future of potentially higher rents and reduced security. The proposals were dropped without any of them reaching a ballot, save for Southwark where tenants rejected the proposal.

180. A report prepared by advisers to Leeds City Council identified four conditions that were necessary for a successful HAT:

— Careful targeting of areas.
— Support from the LA and the tenants.
— Strong local representation.
— A true choice of long-term landlord.
181. Two local authorities – Hull and Waltham Forest – have since agreed HAT programmes with the DOE which largely reflect these conditions, and which have been supported by tenants in ballots. The 1992-93 programme includes new proposals from Liverpool, Brent, Birmingham and Tower Hamlets. New guidelines (*New Life for Local Authority Estates, July 1991*) have been published by DOE, but authorities interested in pursuing this model are expected to discuss the proposal with the Department at an early stage. However, HATs are expensive and funds are limited to £250m over the next three years, so not many authorities will be able to pursue this option.

TRANSFER OF TENANTED STOCK

182. HATs are not the only solution involving transfer of tenanted LA stock to another landlord. As noted earlier (para 163), selective transfer is allowed under the provisions of the Housing Act 1985, and, where sitting tenants are involved, Section 106A of the Act requires them to be consulted and to agree to the transfer before the consent of the Secretary of State is sought. The option is particularly appropriate where the LA has a relative excess of stock but insufficient resources to keep it all in good repair. LAs should bear in mind that homelessness can grow significantly over a relatively short time, although nomination rights to the transferred stock can often be negotiated. The option can also be useful for LAs in rural areas whose stock is widely scattered, because rationalisation can reduce unit costs.

183. In financial terms, transfers can provide a capital receipt, but the DOE guidelines for valuation, which are based on the NPV of the net cashflow from rents less management and maintenance expenditure, are likely to lead to low or negative values. The revenue implications, resulting from differences between actual and notional rent and management and maintenance costs, also need to be taken into account.

184. Derby City Council proposed a novel form of transfer involving Partnership for the Renewal of the Built Environment (PROBE) and a specially created Industrial and Provident Society. The idea was to carry out repairs needed to the properties which the City Council could not afford. Tenants could also apply for certain improvement works for an additional rent. Since only tenants who wanted to transfer would be included, no vote was required. Financing for the scheme was to be a combination of private finance and a dowry of £1m, pledged by the DOE in the form of an SCA. But following a change of control in the council, the scheme was abandoned.

185. Tenanted transfers can also be initiated by the tenants, under the Tenants Choice legislation (Housing Act 1988). To date, very little use has been made of the option, but Walterton and Elgin Community Homes (WECH) has successfully negotiated a £17.5m dowry from Westminster Council and £3.5m of HAG from the Housing Corporation to fully modernise the estate and refurbish 70 empty properties, providing nominations to the council to house the homeless. Rents are to be reduced by £1 per week, and future increases limited to the rate of inflation for at least five years. The council hopes to receive SCAs to help cover the dowry.

IMPROVEMENT FOR SALE

186. Some authorities used to rehabilitate or convert properties for outright sale. The Capital Finance Regulations 1990 allow any expenditure within the three years before resale to be set against the capital receipt before debt redemption rules apply. These programmes result in
improvements in the housing stock and the environment at lower cost to the authority than retaining them as rented stock. They provide a mix of tenures in improved estates or neighbourhoods. And if prices are affordable, they can reduce the demand for social rented housing. Council nomination of purchasers will help to achieve this.

187. However, in low cost areas there may be cheaper properties already available on the private market. And after the initial nomination there are usually no further benefits to the authority. Capital resources must be financed out of the authority's BCA, and, given that the property is also transferred from social housing to the open market, there will be few authorities who will see this as a good use of their limited resources. As a result, in 1990-91, only 155 properties were improved for sale in England, by 19 LAs.

188. Housing associations have also had such programmes. HAG can be paid to meet the difference between the cost of provision and market value. But such payments are only a small element in the Housing Corporation's programme and in 1990-91 only 222 properties were improved by this means.

PRIVATE SECTOR IMPROVEMENT SCHEMES

189. The most straightforward option for involving the private sector in improvement is direct disposal. This is most appropriate where the stock is (or can be made) vacant. The LA receives a capital receipt, albeit subject to debt redemption at 75 per cent, and the developer improves the houses and sells them on the open market. The price received will reflect the cost of the works plus the developer's profit. Developers will be influenced by factors such as the surrounding neighbourhood as well as intrinsic property characteristics, so some run-down properties can still be attractive.

190. Tower blocks over eight stories tend to be the most difficult types of property to sell, partly because the NHBC does not give them its usual housebuilding guarantees. Despite this, some LAs have succeeded. In 1990, Sandwell MBC sold one of their blocks containing 80 units for £0.5m, when the only other alternative appeared to be demolition at a cost of £0.5m. The result was low-cost starter homes, each sold at about £32,000.

191. City Grant can be a useful additional component in Urban Programme areas. It applies where there is a gap between redevelopment costs and the resulting market values. Wimpey Homes, in conjunction with Newcastle MBC, used £1.1m of City Grant funding to improve 11 five-storey blocks, producing 96 refurbished properties and 14 newly built units. The existing tenants were consulted on the proposals and agreed overwhelmingly to be relocated to other properties. The council negotiated the right to nominate first purchasers from its own tenants, its waiting list or those of local housing associations, and 80 per cent of the first block of sales went to these categories.

192. Some authorities have taken a range of initiatives in a single area, with the aim of making the maximum impact and helping to build local confidence in the area. An example is the Lower Grange Estate in Bradford (Box E, overleaf).
Box E
BRADFORD CITY COUNCIL'S LOWER GRANGE ESTATE

**The Problem**
The Lower Grange Estate was made up of a mixture of housing types, many of them with structural problems:

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>398</td>
<td>'Henry Boot' concrete units (designated defective)</td>
</tr>
<tr>
<td>312</td>
<td>'Dennis Wild' steel-framed units (defective)</td>
</tr>
<tr>
<td>124</td>
<td>Traditional houses, built c. 1920</td>
</tr>
<tr>
<td>40</td>
<td>Bed-sitters, built in 1939</td>
</tr>
<tr>
<td>48</td>
<td>Elderly persons' dwellings, built 1974</td>
</tr>
<tr>
<td>922</td>
<td>Total dwellings</td>
</tr>
</tbody>
</table>

A phased improvement programme had earlier been cancelled when the scale of the problems was realised and a LA rebuilding programme was cancelled because of cost. The council therefore looked for alternatives, and Wimpey Homes were invited to help prepare a project brief.

**Proposed Solution**
The scheme proposed involved a mixture of refurbishment and rebuilding, financed by a variety of means:

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>308</td>
<td>New and refurbished homes for sale</td>
</tr>
<tr>
<td>180</td>
<td>New build houses for rent</td>
</tr>
<tr>
<td>300</td>
<td>Refurbished LA house</td>
</tr>
<tr>
<td>114</td>
<td>Traditional houses in private ownership</td>
</tr>
<tr>
<td>48</td>
<td>Refurbished elderly persons' dwellings</td>
</tr>
<tr>
<td>950</td>
<td>Total dwellings</td>
</tr>
</tbody>
</table>

City Grant funding totalled £2.65m (£8,600 for each property sold), and was needed because of difficult site conditions, including the need to re-route infrastructure. Sale prices for the first tranche of 70 properties were £34,500 for 2-bed units and £42,000 for 3-bed units. Although the City Council negotiated nomination rights, with top priority for existing residents, very few are expected to be able to buy.

In addition to the housing, the redevelopment also included the refurbishment of eight shops, a new health centre, refurbishment of the community centre and external improvements to the elderly persons' units.

**The Partnership**
The partnership allowed each party to use its skills to best effect. Wimpey Homes handled the planning, project management, the City Grant application and set up a training initiative for young construction workers. The City Council managed the tenant liaison, the political process and co-ordinated the overall programme, including the funding arrangements. The Housing Corporation provided funds to North British Housing Association for the new rented housing. And Halifax Building Society agreed to underwrite sales of Dennis Wild properties provided the Council's refurbishment scheme was adopted.

**Analysis**
The scheme's objective is to restore confidence to a large area of poor housing and by this criterion has been a success. But repeating the exercise now would be much more difficult. Almost 300 social housing units were lost and since 1987, homeless acceptances have increased significantly while family accommodation continues to be lost through right-to-buy sales. The percentage of new lettings to the homeless has increased from 15 per cent to 36 per cent. As a consequence, the council would have to consider any further initiatives very carefully.
193. Local authorities therefore have a range of options for tackling the condition of their stocks. Many LAs will need to involve the private sector and housing associations as well as seeking further government support. For those estates which suffer an acute combination of physical and social problems, it is rare for any single player to have all of the necessary resources. Often the solution involves some LA improvement works, some housing association rehabilitation, some refurbishment for sale by the private sector and developments by housing associations and the private sector on vacant land within the estate. Thus a combination of options, resources and vehicles is usually needed to effect estate improvements (Exhibit 46).

Exhibit 46
ESTATE IMPROVEMENT
A combination of options, resources and vehicles is usually required

E: PRIVATE SECTOR STOCK OPTIONS

194. When considering how best to support the improvement of conditions of the private sector stock, local authorities have to decide:
— how to respond to individual grant applications;
— how best to improve the conditions of HMOs;
— which areas require more pro-active treatment;
— the best means of dealing with priority areas.

INDIVIDUAL GRANT APPLICATIONS

195. The DOE's recommended approach to evaluating grant applications is contained in its code of guidance, Circular 6/90 (Ref. 10). It argues that decisions on individual properties should not be assessed in isolation. For example, it may be best to renovate a terraced property where its neighbours are in reasonable condition, but issue a closing order or declare a clearance area otherwise. But not all individual applications warrant a full investment appraisal. Birmingham City Council does not usually explore other options if the cost of works is less than £10,000, unless the property is in a Renewal Area (Exhibit 47, overleaf).
Other options are not usually explored if the works cost less than £10,000.

Source: Birmingham City Council
HMOs

196. A purely reactive approach to the problems of HMO condition is insufficient, as the Commission's report *Healthy Housing* (Ref. 9) made clear. Councils must actively seek to identify such properties. The criteria for the most effective solution are the same as for individual grant applications unless they are in a renewal area (see below).

AREA RENEWAL

197. The LA's assessment of private sector stock condition may identify run down areas best improved by declaring a *Renewal Area*. The declaration provides a LA with an opportunity to improve housing and general amenities in an area and to develop a partnership with residents and private sector interests. But there are disadvantages too, notably the requirement to commit funds over a ten year period (Exhibit 48). Although the DOE state that such declarations will be taken into account in allocating BCAs and that SCAs in the first year will be considered, the LA must ensure that the renewal area does not absorb too high a proportion of the authority's funds. About 35 Renewal Areas have so far been declared in England.

*Exhibit 48*

**DECLARING A RENEWAL AREA – PROS AND CONS**

Declaration focuses effort but implies a long term commitment

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198. For a Renewal Area to be declared a number of criteria must be satisfied. The area should contain at least 300 dwellings, at least 75 per cent of which are privately owned. 75 per cent of the houses should be unfit or require the sort of works which might be eligible for discretionary grant aid, and at least 30 per cent of occupants should be on some kind of means-tested benefit. However some variation to these conditions is possible with the Secretary of State's consent. Authorities must also have regard to the guidance set out in Annex B of DOE Circular 6/90. The annex describes a method of undertaking a comprehensive appraisal of an area prior to declaring a Renewal Area. The method of appraisal is known as Neighbourhood Renewal Assessment (NRA). A comprehensive manual on the NRA methodology is to be published shortly by the DOE. The NRA process provides a thorough and systematic appraisal method for considering alternative courses of action for an area (Exhibit 49, overleaf).
NEIGHBOURHOOD RENEWAL ASSESSMENT (NRA)

The NRA process starts with setting aims and defining the initial boundary

Source: DOE; Circular 6/90
199. A NRA requires surveys and consultation and is a major commitment for a local authority. The assessment starts with setting the aims, objectives and boundary for the area concerned. A wide ranging consultation process allows broad option packages to be considered which are refined into a representative short list of no more than five. Packages will contain various housing options (clearance, improvement, leave alone) in different proportions and over different time scales, plus different social, environmental, transport and employment considerations. The option packages are then compared on three equally important bases:

— economic appraisal;

— social and environmental appraisal;

— appraisal against objectives.

200. The economic appraisal is carried out by programming all of the costs and benefits associated with each package over a thirty year period and then comparing the Net Present Values. Packages usually combine a number of options. Evaluating particular options on a per property basis highlights the key cost assumptions (Exhibit 50). Total costs and benefits accruing to both public and private sectors are used so that the overall economic effectiveness of each package in addressing the future of the area can be compared on a similar basis.

Exhibit 50

COSTING STANDARD OPTIONS ON A 'PER PROPERTY' BASIS
Evaluating particular options on a per property basis highlights the key cost assumptions

<table>
<thead>
<tr>
<th>Activity</th>
<th>Discounted Cost (£000)</th>
<th>Activity</th>
<th>Discounted Cost (£000)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>(a) Properties rebuilt</td>
<td>(b) Households displaced</td>
<td></td>
</tr>
<tr>
<td>Maintenance (before refurbishment)</td>
<td>1.0</td>
<td>All properties</td>
<td>Minor works</td>
</tr>
<tr>
<td>Discretionary grant</td>
<td>14.8</td>
<td>Compulsory Purchase</td>
<td>29.6</td>
</tr>
<tr>
<td>Environmental works</td>
<td>0.8</td>
<td>Demolition</td>
<td>0.4</td>
</tr>
<tr>
<td>Maintenance (years 2-29)</td>
<td>4.4</td>
<td>Rebuilt properties</td>
<td></td>
</tr>
<tr>
<td>Interim refurbishment</td>
<td>0.8</td>
<td>Rebuild</td>
<td>(7.9)</td>
</tr>
<tr>
<td>Clearance (year 30)</td>
<td>3.6</td>
<td>Rehouse (2 years)</td>
<td>2.1</td>
</tr>
<tr>
<td></td>
<td>25.4</td>
<td>Maintenance (years 4-29)</td>
<td>2.3</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Interim refurbishment</td>
<td>0.3</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Households displaced</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Rehousing cost (29 years)</td>
<td>10.6</td>
</tr>
<tr>
<td>% Properties rebuilt</td>
<td>0% 20% 40% 60% 80% 100%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Average discounted cost (£000)</td>
<td>41.6</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: Birmingham City Council

201. A final judgment is made by comparing the output of the three appraisal exercises and deciding which package offers the best strategy for the area in terms of its economic, social and
environmental benefits and its ability to meet the overall objectives of the NRA. There are no 
rules set down in the NRA process to govern how an authority should select the right option 
package. All the NRA can do is provide the tools for informed decision making so that officers, 
member and residents can all be made fully aware of the implications of their aspirations and of 
the ultimate decision.

202. The DOE's methodology (which is not statutory) is helpful but does not provide a 
complete picture. The method deals with total cost regardless of who pays. Yet individual home 
owners will be concerned with the size of their (means-tested) contribution to their grant award 
and the size of any compensation grant, while the LA will have to pay attention to the variable 
demands of different options upon their spending power. A key issue is the treatment of rehousing 
costs. The opportunity cost used should take into account the pressure of demand on council 
housing. If there is a relative excess of supply, and only a small amount of clearance is 
contemplated, the cost would be low. The figure is likely to vary significantly across authorities, 
because the pressure on council housing and private sector unfitness are not well correlated. 
Analyses of the relative costs of alternative rehousing options, as described earlier, can help 
identify an appropriate cost basis.

203. LAs have a number of instruments available to support of their chosen strategies. 
Discretionary Renovation Grants can augment mandatory grants in priority areas. LAs will have 
to draw up guidelines to identify cases where renovation to a higher standard will provide better 
value for money in the long term. LAs can also provide discretionary minor works grants of up 
to £1,000 in value for security improvements, insulation etc., which can help elderly people to 
retain their home. The scope for these discretionary grants is limited because the volume of 
mandatory grants under the new system is potentially much higher than before and, until the 
pattern becomes clearer, somewhat uncertain.

204. Agency schemes are another way to help elderly people. They provide a full service 
from drawing up the grant application and improvement schedule, and liaising with the builder, 
to quality control. They can perform a valuable role in helping to implement renovation work. 
The DOE has reserved £4m in 1992-93 for 115 schemes, to cover up to 50 per cent of eligible 
costs.

205. Rebuilding grants may help to overcome local opposition to clearance schemes, which 
frequently experience delays of up to five years before redevelopment is completed. A pilot 
project, sponsored by the DOE, is investigating the role that such grants could play in one LA. 
They aim to bridge the gap faced by existing residents between their compensation for the old 
property and the purchase price of its replacement. The financial package can consist of the 
compensation, shared ownership by a housing association, a conventional mortgage (where 
possible), the local authority's land (with a resale covenant), and a rebuilding grant to take up 
any remaining gap (Exhibit 51). Any grant is provided on the basis that owners should reinvest 
all of their compensation in housing and make use of as much private sector finance as possible, 
within the limits of affordability. HAG funding may be problematical currently, because Total 
Cost Indicators for shared ownership are designed assuming small properties suitable for first-time 
buyers.
Exhibit 51

REBUILDING GRANTS

Rebuilding grants, in combination with clearance compensation and shared ownership, can enable residents to remain as owner occupiers

<table>
<thead>
<tr>
<th>£000</th>
<th>Notes</th>
</tr>
</thead>
<tbody>
<tr>
<td>Market value</td>
<td>55,000</td>
</tr>
<tr>
<td>Less: saving over conventional development</td>
<td>(5,000)</td>
</tr>
<tr>
<td></td>
<td>50,000</td>
</tr>
<tr>
<td>Funded by:</td>
<td></td>
</tr>
<tr>
<td>Clearance compensation</td>
<td>30,000</td>
</tr>
<tr>
<td>25% share taken by housing association</td>
<td>13,750</td>
</tr>
<tr>
<td>Means tested rebuilding grant</td>
<td>6,250</td>
</tr>
<tr>
<td></td>
<td>50,000</td>
</tr>
</tbody>
</table>

Notes:
1. Savings due to pre-sale of dwellings, reduced risk and (possibly) reduced interest costs if the LA retains ownership of the land until sale.
2. The means test would ensure that occupiers sought the maximum mortgage compatible with their financial circumstances, and this may reduce the grant or even make it unnecessary

206. New rented housing may be attractive for those who are currently renting privately but existing owner occupiers will generally wish to retain a stake in their property. But where compensation payments are low and there is a shortage of rented housing, additional provision may be the most effective solution. Some HA new build for rent within the NRA therefore may be necessary.

207. If rehabilitation is not cost effective, open market sale for redevelopment may be the only alternative. In IAP areas, City Grant may be applicable, but it can only be used to subsidise the developer's costs where these exceed the market value of the new dwelling. The grant cannot be used to subsidise purchasers so as to achieve affordability.

208. Group repair schemes have replaced enveloping as a means by which the exteriors of blocks of properties can be improved. Some LAs have experienced difficulties in identifying schemes which meet the criteria – at least 75 per cent of the properties in poor condition, at least a third of the households on income-related benefits, and an average cost of less than £11,000 per house (£14,000 in London). As with Renewal Areas, the consent of the Secretary of State can be sought, and in most cases has been received, to vary these conditions. The DOE is currently reviewing the provisions relating to group repair.

209. Enforcement Action will typically apply only to privately rented property. The Commission's report Healthy Housing showed that many authorities had scope to do far more in this respect. However, where a statutory notice has been made, a mandatory grant applies, subject to a test of the landlord's resources. Many LAs are concerned about the size and value of such grants. LAs will need more experience before committing themselves to a significant increase in activity levels.
210. The option development and evaluation stage identifies the most promising schemes in each of the three programme areas. But the total resources needed to implement the entire programme are likely to be too high. The task of programme creation is to identify the options which most closely meet the LA's objectives within the resources available. An effective way of choosing between alternative programmes is to forecast their effect on key service indicators (Exhibit 52). For example, the impact of the rehousing programme can be examined by measures of future access to council housing for different client groups. Although such estimates are likely to be approximate, the process enforces a useful discipline which ensures that the LA anticipates trends and does not base its investment decisions on a state of affairs which is set to change.

*Exhibit 52*

**FORECASTING REHOUSING OUTCOMES**

Options should be assessed by their effect on key service indicators

(A) REHOUSING FROM THE WAITING LIST

Family accommodation will increasingly be available only to those in the highest need. In contrast, gaining access to 1 bed or elderly/sheltered units will be easier. The programme should be adjusted in favour of family units if possible

(B) TEMPORARY ACCOMMODATION

Numbers in temporary accommodation are expected to rise to ensure a supply of lettings to the waiting list. Average stays are likely to be over a year by the fifth year of the plan.

211. Presentation of such results to council members will allow alternatives to be effectively explored, and provide a sound basis for decisions. It also leads naturally to the evaluation of the benefit of increasing total resource levels, for instance by raising rents or further disposals of assets. Too often, councils are presented with Hobson's Choice and, even then, have no real idea of the programme's likely impact.

212. Account must be taken of interactions between the different programme areas. The description of the options available (paras. 147, 173) demonstrated how rehousing demand could be affected by LA stock condition options, either adversely, as in the case of stock sales, or beneficially, as in the case of improvement work. Private sector options, such as agency schemes, clearance and enforcement action, can also have an impact on rehousing demand. Some attempt
must be made to identify such interactions, and to evaluate their varying impact on the achievement of objectives. On mixed estates, action taken on the public and private stock should be mutually supportive.

213. Practicalities are also important. LAs will need to ensure that lead times for the total programme are realistic and that there are sufficient staff to undertake the necessary consultations with tenants, to prepare the specifications for the various schemes and to undertake the work that will be required.

G: IMPLEMENTATION

214. In preparing the plans for the various programme areas, LAs should ensure that they have established satisfactory relationships with other LA departments, with agencies responsible for the development of care in the community and with housing associations. They also need to monitor the implementation of the plan and be aware of its implications for skills and training.

215. Most local authority departments have a part to play. Urban Renewal is one example, particularly where City Grant, land reclamation grant and, where available, City Challenge monies are usable for housing purposes. The council can influence the ensuing private sector developments to ensure that they complement its own programmes. And where a NRA or similar large-scale assessment of an area's needs is contemplated, representatives of virtually all LA departments should be involved.

216. All LAs should ensure that interaction between housing and planning policies is well defined. During the fieldwork, many examples were discovered of lack of coordination resulting in conflicting policies. A Planning committee's policy can significantly affect the Housing committee's ability to provide and facilitate affordable housing. In rural areas, the authority's planning policy is a critical factor in determining whether schemes will be successful.

217. Liaison with Environmental Health can also be deficient, even where LAs combine housing and health within one department. Enforcement action to deal with HMOs and clearance programmes can have significant rehousing implications, requiring a coordinated policy which has examined the overall effects of alternative strategies. Conversely, the living conditions of those on the waiting list can help to inform EHOs of the need for inspection and subsequent action.

218. Other departments also have a role to play. There needs to be good liaison with estates departments, particularly in relation to schemes involving land sold at less than market value. In many smaller authorities, the housing committee relies upon the expertise of the finance department in advising on resource levels and the implications of the more complex options.

219. One of the major challenges facing housing authorities is the implementation of the National Health Service and Community Care Act (1990). A key aim of the legislation is to enable people to live in their own homes for as long as they wish by providing individually-tailored packages of care. Such packages often include one or more housing services, such as adaptations to LA or private dwellings, including alarm systems and grab-rails in bathrooms; minor works and disabled facilities grants; agency schemes to help people keep their house in good condition; and a range of specialist accommodation with different levels of support. Many housing authorities
have accumulated considerable experience in the provision of these services, and potentially should be able to offer a lot to the planning and implementation of the new regime.

220. This is reflected in the legislation. Sections 46 & 47 of the Act place a duty on Social Service authorities (SSAs) to consult with housing authorities over local plans and the assessment of individual needs. And the DOE's draft Housing and Community Care Circular states that housing authorities should forecast the effect of the new regime on housing demand. But current practice falls far short of the ideal. Even some major city housing authorities and their local associations have been excluded from the process of drafting community care plans (Ref. 22). Others have become dissatisfied with the formal joint planning process, seeing it as dominated by social services/health issues, and have 'dropped out'.

221. Funding issues are another constraint. Schemes can involve a large number of players and take a very long time to arrange e.g. a LA providing a property, a HA undertaking HAG-funded conversion, and a voluntary organisation providing the practical support, supplemented by a community psychiatric nurse or social worker. More seriously, the pressure on financial resources generally has led to disputes about the housing/care divide. Some housing authorities have been put-off special needs schemes because of scepticism about the capacity of SSAs and health authorities to provide adequate support. If community care is to succeed, central government will have to ensure that the necessary finance is available, and housing authorities will have to play their part by getting fully involved in the planning process; making SSAs and health authorities aware of their experience and their potential contribution; and by tough negotiating on responsibilities and resources.

222. Section 20 of the Children Act (1989), which came into force in October 1991 also has implications for housing. It places a duty on social services authorities to provide accommodation for children over 16 whose welfare would otherwise be prejudiced. Under Section 27, housing authorities are expected to help, although this is not a duty and should not unduly prejudice the discharge of their statutory duties. Nevertheless, housing authorities, particularly in inner city areas, should work with SSAs to predict the likely implications and identify possible solutions.

223. Relationships with housing associations go beyond ensuring that the authority receives its full quota of nominations. Authorities must also ensure that the associations are involved in the planning process itself. At present, few authorities do this in any meaningful way, and yet it is the associations who are to become the main providers of new social housing. Some associations, encouraged by the Housing Corporation, are beginning to develop business plans. LAs can encourage them in this task and help to identify stages in the process where joint discussions would be beneficial. Secondment of staff between LAs and associations can promote understanding of each organisation's problems and objectives, and thus enhance cooperation.

224. LAs also have to monitor the implementation of their plans. Plans are subject to many uncertainties, and it is desirable to be able to react promptly to unforeseen events. Projects which slip can result in some or all the associated resources being lost, although internal financing, on average 25 per cent of spending power, can be used in subsequent years. The more serious problem is slippage of projects financed by SCAs, such as Estate Action, which require considerable effort
to set up (see para. 86). Ideally, LAs should have other projects in reserve, but the staffing implications can make this difficult.

225. The other reason for monitoring is to ensure that the schemes achieve the sort of benefits expected. This particularly applies to options which have not been tried before, e.g. a cash incentive scheme, and where the LA is uncertain of the likely response. Specially designed data collection exercises may be necessary. The information will allow effectiveness measures relating to such options to be updated, so that future plans are based on the most reliable data available.

226. Finally, LAs need to think about the staffing implications of the planning process. It will be clear that the strategic role outlined in this chapter is a very demanding one, calling for skills which are in many cases very different from those that have been traditionally required. Training obviously has a role to play, but some LAs will also have to consider recruiting more higher-graded staff. Pressures on revenue costs will make this difficult. In deciding how to respond, LAs will need to take into account the level of their investment programmes and the potential for improvement in performance that a fully competent team could deliver.

227. This chapter has described how LAs can analyse their needs, resources and priorities for the three programme areas and create and implement a housing programme. Many of the elements are in place in the better housing authorities. But this good practice will not solve the problems that were identified in Chapter 1. Chapter 3 examines the further steps that could be taken at the national level to improve local strategies.
3. A National Framework for Local Housing Strategies

228. Chapter 2 shows that even if local authorities made best use of their own stock and applied the resources available to them in the most effective manner, there is still likely to be a shortfall of around 12,000 social homes each year. There is also likely to be a continuing backlog of £ 8.5 billion worth of maintenance in the council housing stock and at least £ 1.4 billion renovation work requiring grants in the private sector. The level of public expenditure on housing is a matter for the Government to decide and the Commission takes declared public spending plans as the baseline for the analysis in this paper. But within that expenditure limit there are steps the Government could take which would help to close the gap further.

229. National policies can help in a number of ways. They can maximise the contribution of the private sector, achieve better targeting by more accurately assessing needs and allocating resources and provide incentives for the more efficient use of resources by local authorities. More fundamental solutions have been proposed which involve the large scale transfer of stock to new owners and reforms to the housing subsidy system, such as removal or retargeting of mortgage interest tax relief. Proposals of this kind are outside the scope of the Commission's remit which is restricted, under Section 27 of the Local Government and Finance Act 1982, to commenting on the implications of ministerial direction and guidance on the economy, efficiency and effectiveness with which local authorities manage their resources. The suggestions in this chapter are made in that context.

MAXIMISING THE PRIVATE SECTOR CONTRIBUTION

230. The planning system could be a major tool for increasing the private sector contribution. Authorities can negotiate with developers to provide a proportion of low cost housing in new schemes. But the impact of these powers has been limited. They have probably resulted in the production of no more than an additional 10,000 homes in the past ten years (Ref. 23).

231. DOE Circular 7/91 (Ref. 20) encourages authorities to make more flexible use of these powers because they offer considerable opportunities for the provision of affordable housing, particularly in rural areas. It is too early to judge what impact the Circular might have, but authorities studied for this report pointed to limitations on the scope for the provision of affordable home ownership by these means. There are still many barriers to be overcome, not least for those authorities containing areas of Green Belt. Often properties built under planning agreements are sold to people who were not in housing need. There is undoubtedly some scope for the use of planning powers, although if this is not achieved by negotiation it might be necessary to give
authorities more positive powers to specify the type of development which is permissible.

**TARGETING OF RESOURCES TO NEEDS**

232. The efficient targeting of resources to needs requires a definition of the needs which are to take priority, an accurate assessment of levels of need nationally and locally and administrative mechanisms to channel resources to priority areas and programmes. The present system is described in Appendix B. The importance of better information on housing needs has already been emphasised, including a national assessment (para. 37) and better local information (para. 36). The DOE should encourage more accurate assessments by local authorities through the development of model survey packages and by requiring HIP bids to be supported by accurate data. With such information, housing investment will meet needs in a more cost effective fashion; without this information, investment may increase the inequalities in housing provision across the country.

**THE GNI AND ALLOCATIONS TO LOCAL AUTHORITIES**

233. For 1992-93 the proportion of BCA allocated at the discretion of DOE regional offices is to be 60 per cent. The DOE's guidance note states that the efficiency and effectiveness of the authority will now be treated as the primary criteria for the discretionary allocation. There is value in this emphasis and in encouraging more competition between authorities. But some of the specific criteria mentioned in the guidance relate to particular types of activity, such as shared ownership, rather than to efficiency and effectiveness.

234. If value for money is to be emphasised, it will be important to develop adequate output measures for authorities. Programmes which produce the most units are not always the most effective in meeting priority needs. It is therefore important that the enhanced element of discretion in HIP allocations does not create incentives for authorities to pursue particular activities such as shared ownership, regardless of their relevance to local needs. If competition steers resources from needy authorities to authorities which are efficient but which do not face housing problems, this new approach will not resolve the country's housing problems. An emphasis on needs remains important, but the measurement of them is currently flawed.

235. In common with all measurements of housing needs, the Generalised Needs Index (GNI) reflects judgements about both the relative priority of different types of need and the desired distribution of resources to different areas and programmes. Those judgements should be made explicit so that all the agencies involved are clear about their objectives. Ideally common definitions of need and of priorities between them should be agreed by all agencies. This is generally the case with programmes aimed at tackling problems of homelessness. The legislation giving priority to some homeless households is broadly supported by the local authority associations and the Supplementary Credit Approvals were well targeted on homelessness (Exhibit 53). They have had an important impact on the problem with £308 million allocated over two years. They offer a model for other programmes.

236. The allocation of resources for maintenance of the council stock has proved more problematic. Information on the extent and nature of the problems in England is inadequate, although in Wales there is better information. In Wales, the House Condition Survey provides estimates at local authority level. To do this in England for all authorities would be expensive
but improved allocations would be possible if the sample size were enlarged to provide reliable estimates for just the larger individual authorities. There is also disagreement in England between the DOE and local authorities on the means of allocating resources. When the DOE increased the weighting given to local authority stock condition and decreased that for new provision, the change was resisted by the local authority associations. (The formula used for allocating management and maintenance allowances is also somewhat arbitrary, and the DOE has commissioned research aimed at better targeting).

237. The allocation of specific funds to individual estate improvement is not always well targeted. Case study authorities said that bids for funds under the Estate Action and Housing Action Trust programmes were sometimes determined by the knowledge that additional funds were available for specific purposes rather than because, in their analysis, these were the most pressing local needs. Some estates do need intensive action on a range of problems in addition to stock condition, but the 'all or nothing' approach of these programmes does not always, in the local authorities' judgement, lead to the best use of resources. Part of the reason for these programmes is that some authorities will otherwise spread their resources too thinly and not focus on the worst estates. But it is necessary to have accurate information on property conditions throughout the authority's stock before deciding maintenance priorities. This is not available to the DOE unless it is provided by the council itself. There is a case for more flexibility in the way that resources are allocated for local authority stock improvement.

THE HNI AND ALLOCATIONS TO HOUSING ASSOCIATIONS

238. The ability of local authorities to fulfil their housing strategies is affected by the allocation of funds to housing associations in their areas. Therefore it is equally important for housing association investment to be targeted on meeting needs. The system for making
allocations to housing associations is different (see Appendix 2). The Housing Needs Indicator (HNI) is constructed in negotiations between the DOE, the Housing Corporation and the NFHA. In the past there has been a reluctance to move quickly to direct resources to areas of greatest need. In 1989 it was recognised by a working party of these organisations that there should be better targeting on areas with severe homelessness problems. The homelessness indicator was adjusted accordingly. But the share given to the homelessness factor in the total HNI was reduced. In addition changes in the cost compensation factor, the reallocation of funds to a limited number of stress areas and the damping of changes to prevent any region losing significant funds, meant that London and the Home Counties did little better. However, with the removal of damping, there has been some improvement in the targeting of allocations to the London and Home County areas (Exhibit 54).

Exhibit 54
THE HOUSING NEEDS INDICATOR AND PROJECT APPROVALS
There has been some improvement in the targeting of allocations to the London and Home County areas

![Graph showing changes in approvals (% national total) for different regions from 1987/88 to 1990/91.]

Source: Housing Corporation

239. The allocation of funds to individual associations is dependent on regional strategies and bids made by associations. An important element is the number of units that will be produced by any particular level of investment. This is important in selecting between competing bids. But in deciding between bids from different areas it could cause problems. For example, the Housing Corporation takes account of the availability of local authority land provided free or below market value, but those areas with the greatest housing shortages also have the least land available.
240. The switch to new building by housing associations rather than local authorities has costs which have to be offset against the lower initial demands upon public expenditure brought about by the mixture of public and private finance. Housing association private finance has been at a premium compared to local authority borrowing costs. This premium affects public expenditure because higher rents will lead to increased housing benefit. And there is concern amongst associations that raising substantial private sector funds will prove difficult and expensive because of a number of questions about their credit status. It is essential that this problem is resolved if they are to carry out a large development programme at a reasonable cost. The DOE is currently reviewing a number of options.

241. There is a particular problem with funding renovation work by associations. The new fixed grant regime means that associations must cover in full any cost over-runs on development. But the risk of additional costs are considerably higher in renovation work than in new build. This is probably an important reason for the recent reduction in renovation work by associations. As a consequence, some areas can score highly on the HNI because of poor local housing conditions, but the local associations only bid for new build. The DOE is carrying out research into the problem. If the funding regime emerges as an important inhibiting factor then there will be a strong case for offering a financial safeguard to associations where an option appraisal on the model developed by DOE for neighbourhood renewal assessments shows rehabilitation to be the best and most cost-effective course of action.

WHY TWO CHANNELS FOR ALLOCATING CAPITAL RESOURCES?

242. At present there are two separate systems for assessing needs and allocating capital resources to local authorities and to housing associations. They are described in Appendix 2. The present system lacks a coherent structure and hinders strategic planning (Exhibit 55, overleaf).

243. The two have developed separately for historical reasons, but both allocate large amounts of public expenditure in pursuit of government housing policies. Although all the agencies make considerable efforts to liaise and cooperate, it is not clear that two separate channels for allocating resources are either efficient or effective. Inevitably there is duplication and sometimes there are conflicting priorities. Case study authorities reported developments by housing associations which did not meet the priority need identified by the authority. For example, new sheltered housing was provided when there was already a relative over-supply and a serious shortage of family housing. A single channel for allocating national funds to both local authorities and housing associations should be more efficient and effective.

SUBSIDIES AND THE EFFICIENT USE OF RESOURCES

244. While the new housing revenue subsidy system encourages greater efficiency by authorities, for example over the management of voids and rent arrears, there are ways in which it discourages the best use of the stock and inhibits necessary investment.

REVENUE CONTRIBUTIONS TO CAPITAL

245. Many authorities have increased their capital resources by raising rents above government guidelines. Some use the money to make RCCOs. But the total of £ 314 million is
small when compared with the fall of £846 million between 1990-91 and 1991-92 in usable capital receipts (Table 16).

Exhibit 55
ASSESSING NEEDS AND ALLOCATING CAPITAL
The present system lacks a coherent structure and hinders strategic planning

<table>
<thead>
<tr>
<th></th>
<th>£m</th>
</tr>
</thead>
<tbody>
<tr>
<td>Credit approvals &amp; Specific Grants</td>
<td>1,508</td>
</tr>
<tr>
<td>Usable receipts</td>
<td>1,962</td>
</tr>
<tr>
<td>RCCOs</td>
<td>77</td>
</tr>
<tr>
<td>Total</td>
<td>3,547</td>
</tr>
</tbody>
</table>

Source: DOE Annual Report 1992; AMA, ADC surveys

246. There is scope in some areas with low rents and poor housing stock to fund improvements through RCCOs. But uncertainties about the future of the current subsidy arrangements deter some authorities from raising rents. At present, subsidy is calculated on notional rents determined by the DOE rather than the actual rent. This means that any increase above this level is available to authorities in full. If the rules were changed to take account of the actual rent charged, authorities with rents higher than the current guidelines would lose subsidy.
Fears that the rules might be changed in this way discourage some authorities from raising RCCOs. While the DOE cannot tie the hands of future ministers, some assurance of stability in the regime would help to encourage RCCOs.

**HOUSING BENEFIT SUBSIDY**

247. The present system of subsidy for housing benefit paid to council tenants contains some perverse incentives which can distort investment decisions. The regulations seek to prevent authorities from seeking to increase their subsidy from central government by imposing higher rent increases on housing benefit claimants than on other tenants. But these regulations can also discourage authorities from making sensible decisions on investment and rent levels.

248. Where authorities wish to concentrate improvement investment on particularly needy groups, for example to target the installation of central heating on elderly tenants, the resulting rent increases may not be fully supported by housing benefit subsidy. The regulations may also discourage authorities from setting more realistic rent differentials between different sizes of property. In only a quarter of authorities is the difference in rent between a three bed house and a two bed flat greater than 15 per cent. If any increase disproportionately affects tenants on housing benefit, then some loss of subsidy will again result which will lessen (but by no means eliminate) the yield from any such increases. The Government should review the regulations with a view to removing these disincentives to sensible rent and investment decisions although they will quite properly wish to continue to protect themselves against any exploitation of the subsidy rules.

**FUNDAMENTAL SOLUTIONS: TRANSFER OF COUNCIL STOCK**

249. The Government has encouraged the transfer of council housing to other landlords. They aim to diversify the ownership of social rented housing and raise capital receipts for re-investment in maintenance and improvement. Such transfers also open up the prospect of increased investment through private finance. Over a third of authorities are believed to be considering a large scale voluntary transfer (LSVT) of their stock. But there have been problems with LSVTs. To date smaller southern shire districts have predominated in choosing this route and only 90,000 homes have been transferred. All have been transfers to a single landlord specially established by the authority and consisting largely of the old housing department under a new name. A private sector monopoly has replaced a public sector monopoly. There has been no new competitive pressure for better performance.

250. LSVTs do not necessarily lead to large scale investment in new stock. The capital receipt to the authority must first be used for the repayment of housing debt. Authorities can re-use 25 per cent of the receipt or the amount left after repayment of debt, whichever is the lower. Usable receipts can be spent only at the rate of £70 per charge payer in the first year and £50 in following years. But there is no requirement to spend them on housing. To date only £75 million out of £650 million raised has been reinvested in social housing. However, the valuation of LSVTs does make provision for catch-up repairs to the existing stock. An average of £2,000 has been allowed for in the first 17 transfers.

251. The transfer associations commonly give commitments to undertake catch-up repairs and to limit rent increases for existing tenants. These commitments are important in winning
support from tenants, but can lead to increasing debt for the associations. Some were counting on capital receipts from sales to sitting tenants to fund such expenditure, but sales have fallen short of expectations in most areas and associations may have to consider selling some vacant properties on the open market to make good the gap. The demands on private finance from the LSVT programme have been considerable; the tenanted market value to date has been about £9,000 per dwelling.

252. There are costs as well as benefits to the Government from LSVTs. Government benefits because 75 per cent of the capital receipt are used to reduce the PSBR and the new landlord will receive neither capital allocations nor revenue subsidies. On the debit side, the set aside proportion of future capital receipts will no longer be available, the costs of housing benefit can no longer be offset against rents and future rent rises, which in the long term are likely to exceed those of council tenancies, will lead to substantial increases in housing benefit costs. Rents on new lettings are expected to double over a five year period.

CONCLUSION

253. Chapter 1 described the gap between the aspiration that every family should enjoy a decent home and the reality of current housing conditions. Substantial gaps exist when the need for new dwellings is compared with projected supply and when the condition of both the public and the private housing stock is compared with the current level of investment in maintenance and improvement.

254. Initiatives are in hand to tackle some of these problems. In particular an enhancement of housing association activity will bridge a considerable element of the gap between the supply and the need for social housing. If local authorities performed at best practice levels in the management of council housing, the supply gap would be further narrowed particularly in the short term. Better targeting could ensure that best use is made of available resources.

255. But on present plans a supply gap would still remain. In respect of the problems of stock condition in the public and the private sector, few fresh initiatives to overcome shortfalls in the current level of investment are evident. Initial evidence from the first LSVTs suggests that no immediate burst of energy in creating new provision can be expected from the consequential receipts. The improvement of incentives in present subsidy regimes will help but will not solve the problem. Within this imperfect environment local authorities must do their best, aware that it will not be enough.
4. Conclusions

256. This report has described the main elements of the strategic role of local authorities and provided a framework against which LAs can judge their current practice. Specifically, LAs are encouraged to:

(i) Undertake a systematic and fundamental reappraisal of their housing role and those of other housing agencies (paras. 47-48).

(ii) Set comprehensive objectives (paras. 50-51).

(iii) Identify housing needs in all tenures and establish means of prioritising them (paras. 52-81).

(iv) Undertake a comprehensive assessment of internally generated and external resources (paras. 82-99).

(v) Make the best use of their existing stocks (paras. 101-118).

(vi) Identify a comprehensive range of alternative options for meeting priority needs (paras. 123-209).

(vii) Establish a methodology for evaluating the relative merits of options and hence comparing them (paras. 119-122).

(vii) Set up a programme creation process which highlights the impact of alternative programmes on key measures of performance (paras. 210-213).

(ix) Develop suitable relationships between departments and with external bodies (paras. 214-223).

(x) Measure their outcomes and reevaluate strategies (paras. 224-225).

(xi) Identify skills and training requirements for an effective strategic role (para. 226).

257. There are also a number of areas where government action could ease the problems faced by local government:

(i) The DOE and Welsh Office should prepare projections of the need for social housing using the results from the 1991 census (para. 20).

(ii) The DOE and Welsh Office should prepare model survey packages so as to encourage soundly based estimates of local need (para. 232).

(iii) The DOE should enlarge the sample size of their five yearly House condition survey so as to provide estimates of stock condition at an individual local authority level for the larger housing authorities (para. 236).

(iv) The DOE should encourage a common definition of needs and priorities across all agencies and should consider the creation of a single channel for the allocation of resources to housing associations and local authorities (para. 243).
(v) The DSS should reexamine the housing benefit regulations to remove the disincentive that exist to the creation of realistic rent differentials between different property types and to the appropriate targeting of improvement works (para. 248).

(vi) The DOE and Welsh Office should create greater stability in the housing subsidy rules by making clear their intentions in respect of the rent levels that will be assumed in subsidy calculations (para. 246).

(vii) The new financial regime for housing associations should be reexamined to that it does not discourage associations from undertaking rehabilitation where such an approach is cost-effective for the area (para. 241).

258. All of these steps would ease the difficulty that local authorities face in preparing and implementing their local strategies. But they would not change this report's central message, which is that current levels of investment and the pursuit of best practice by local authorities will reduce but not eliminate the shortfalls either in the provision of social housing, or in the maintenance of council housing and in the repair of private housing.
Appendix 1: Projections of Housing Need

1. This appendix describes the methodology employed for the projection shown in Exhibit 3 and also outlines other recent projections of housing needs. Some are based on calculations of the balance between the number of households and the number of dwellings at different times, others are based on projecting the flow of households into dwellings over time.

THE COMMISSION'S PROJECTION

2. The first step is to forecast the future numbers of households. DOE regularly produces such projections. Currently a continuing growth from mid 1991 is projected with an additional 1.5 million households by 2001 and an extra 2.8 million by 2011. The major contribution to this growth is the number of single adults living on their own rather than as part of a family. Migration makes a substantial difference to the projected growth in different regions, so that net growth ranges from a 7 per cent increase in 20 years in the northern region to a 25 per cent increase in East Anglia. The increase in households will be greater in the early years of the 1990s.

3. To this total must be added a number of concealed households, that is those who are sharing accommodation with other households. Not all of these require their own home. A deduction must be made for households who, while they want their own accommodation, are not regarded as being in 'need' or at least are not considered to have a priority for social housing. This calculation is more problematic because it depends on a judgement of relative needs. Projections of housing supply and demand and discussions of shortages have to spell out which concealed households are included in the demand side of the equation. As a minimum they would normally include married couples and lone parents. In 1986 there were 282,000 concealed married couple and lone parent households. By 2001 this number is forecast to fall to 260,000. Most calculations would also include some single people in this category. Exhibit 3 takes only the minimum figure of concealed married couples and lone parents. No single person concealed households are included.

4. A further addition must be made consisting of those households living in short term temporary accommodation such as hostels and B&B hotels, as these are not part of the longer term housing stock. There are currently 24,000 households accepted by authorities as priority homeless who are staying in such temporary accommodation. This total does not include properties leased from the private sector since these will continue to form part of the housing stock after the leases end.

5. Some argue that unfit properties should be deducted from the total stock since, by definition, they are not suitable for occupation. However, many of these will be tackled by renovation and only a minority by demolition, so only those which are demolished should be deducted from the total stock. The number of unfit dwellings decreased only slightly between
1971 and 1986 and the number of demolitions has been very low during the past ten years. If it were central and local government policy to eradicate unfitness, then the number of demolitions could well increase, as would the number of renovation grants. At current rates houses would have to last for over 1,000 years before being replaced. It is inevitable that the rate of demolition will increase, both of private sector stock and of unsuitable local authority properties, although it is not possible at present to predict the timing or scale of the increase.

6. It is also necessary to make a deduction for vacant properties and for second homes. Exhibit 3 is based on the continuation of current private sector vacancy rates and the achievement of the two per cent rate in the social sector which is assumed in DOE subsidy calculations. It is assumed that there will be no growth in the number of second homes.

7. These needs can be compared to the expected growth in the stock. Private housebuilding is particularly volatile and subject to fluctuations in the performance of the economy. This makes projections even more subject to error than overall economic projections, although over a period of time the trends become clearer. The rate of private sector housebuilding also depends on the availability of building land in the right area and on the affordability of the new properties, since they will only be built if there is effective demand for them. The average private sector production throughout the 1980s was 137,000 new dwellings a year. About four per cent of the owner occupied stock is vacant at any one time and this must be deducted from the total. There will also be demolitions. These averaged 20,000 per annum in the 1980s.

8. The forecast does not make any provision for a number of factors such as the housing of 'rough' sleepers and discharges from long stay NHS institutions offset by conversions of private sector properties. Their net effect is likely to be small.

OTHER PROJECTIONS

9. On the demand side, all projections depend on the household estimates produced by the DOE with some variations in the assumptions about the number of concealed households who will need separate housing. But there are wider differences in the methods employed to estimate the present stock of available housing and future production.

10. The first major assessment of housing needs since the 1977 Green Paper was produced by the National Housing Forum in 1989 (Ref. 6). Starting with the 1985 DOE household projections, it added in a range of estimates for concealed households who would be in need of rehousing. The different assumptions led to a range of between 146,000 and 201,000 extra potential households in each year. The calculations made allowances for a vacancy reserve, second homes and unfit dwellings. This resulted in the need for annual completions of between 228,000 and 290,000 dwellings a year, or 157,000 to 219,000 dwellings if no allowance is made for unfit dwellings. This compares with an average completion of 134,000 private dwellings in the 1980s.

11. A different approach was adopted by Kleinman and Whitehead in research at Cambridge University (Ref. 7). They used a version of the methodology developed by the Department of the Environment for its 1977 projections to estimate flows of households in the housing stock. Supply of private sector housing is estimated assuming stable trends in economic variables. The supply of new social rented housing is estimated to be 40-45,000 per annum.
throughout the 1990s and estimates for relets are added to this. They concluded that in 1991 91,000 households would be unable to find social housing, declining to 38-74,000 in 2000. These represent shortfalls in each year and need to be added to the accumulating total. The range of estimates results from different assumptions about the relet rate in the council stock. At the low end of the scale the shortfall would be taken up by relets in the private rented stock. But at the high end the numbers of households who were homeless or in temporary accommodation would increase by about 50,000 a year in the early 1990s, falling to 30,000 by 1995.

12. Bramley adopts yet another approach (Ref. 3). Instead of using the increase in the numbers of households he starts with the number of new households forming in the year. He then analyses the income distribution and housing costs in each region to derive an estimate of those households whose head is under 30 that can afford a new or a (cheaper) second hand home of an appropriate size. He then estimates those that could only afford shared ownership or low cost sale, and those who could only afford social rented housing. Nationally this is estimated at 38 per cent of all new households, although the proportion varies from 44 per cent in Greater London to 29 per cent in the South West. Bramley recognises that these findings are very much influenced by relative house prices and interest rates. They take no account of savings or inheritance which he estimates might add 5 per cent to those that could afford to buy.

13. Bramley then compares the need for rented housing at a local authority level with available relets (excluding elderly persons lettings) to estimate deficits and surpluses at the local level. The deficits are summed to derive an estimate of national need. Thus it is assumed that there is no inter-authority mobility. The calculations show a need for 75,000 units per annum, compared to current provision of 24,000 units. This estimate would fall to about 60,000 were mobility within regions to be allowed. However a further 40,000 units may be needed once account is taken of the over 30s and of regional migration patterns. A particular conclusion of the research is the significant use that could be made of low cost and shared ownership. Bramley estimates this to be up to 15 per cent of all new households.

14. Comparable research in Wales concluded that there is a need for 7,500 new units of social housing each year, more than double the current programme (Ref. 24).
Appendix 2: Allocation of Resources to LAs and HAs

1. The differences in the housing problems faced by individual authorities are reflected in the DOE's procedures for making the capital allocations which effectively determine the amount of capital investment authorities can undertake. The allocations are determined in part according to an index of quantified needs, the Generalised Needs Index (GNI), and in part by DOE discretionary decisions. The GNI takes into account a range of housing needs factors including homelessness, housing shortage and stock conditions and also includes a measure of cost compensation to allow for regional cost differences. Authorities have to submit annual Housing Investment Programmes (HIPs) to the DOE which provide data on local housing problems and the authority's plans for capital expenditure to remedy them. This information is used by the DOE to make allocations to individual authorities, taking account of the usable capital receipts available to each authority.

2. The procedure for distributing resources to authorities is as follows. First, the national capital expenditure total, the Housing Annual Capital Guideline (ACG), is derived by adding to the total borrowing limit a notional proportion of usable capital receipts, which are thereby 'taken into account' (RTIAs). Certain sums are top-sliced from this total and allocated to specific programmes such as Estate Action. These Supplementary Credit Approvals (SCAs) are subject to individual authority bids for projects. The remaining total is then divided into regional totals according to the GNI. Regional DOE offices then allocate a proportion of this sum (50 per cent in 1991-92) to individual authorities according to their GNI and the remainder on a discretionary basis, using the other information provided on HIP forms and information gathered from meetings with the authorities. Some part of the total is reserved for Estate Action continuation schemes. This allocation is the authority's ACG, which is also used to determine the HRA Basic Credit Approval (HRA BCA), the limit for subsidised borrowing in respect of HRA capital expenditure (Box C provides details of the calculation).

3. For 1992-93 the proportion allocated at the discretion of regional offices has been increased to 60 per cent, with greater emphasis on examining the individual elements in authorities' programmes. The guidance note issued by DOE states that the efficiency and effectiveness of the authority will now be treated as the primary criterion for the discretionary allocation.

4. There is an entirely different system for making capital allocations to housing associations. Needs are initially assessed by use of a Housing Needs Indicator (HNI) which uses some different factors and different weightings from the GNI. Unlike the GNI, it is used to allocate units of accommodation rather than financial resources to different areas.
1. Housing problems in Wales are different from the rest of the country and there are different structures in place to tackle them. 72 per cent of homes are owner-occupied compared to 68 per cent in Great Britain and the Welsh Office aims to increase this proportion to around 80 per cent by the turn of the century. 38 per cent of the stock dates from before 1919 compared to 27 per cent in Great Britain.

2. A major problem in Wales is the ageing private sector stock. The 1986 *Welsh House Condition Survey* found that seven per cent of dwellings were unfit compared to five per cent in England. The average repair cost for owner occupied properties was £1,183 compared to £670 for local authority properties. And 59 per cent of households in unfit properties had incomes below £4,000 per annum.

3. These problems are reflected in the allocation of resources to authorities by the Welsh Office (Table A1). Forty-five per cent of capital expenditure is planned to be on private sector renovation, with the bulk of the remainder on public sector renovation. Mandatory renovation grants are funded by SCAs, and, under a special funding arrangement agreed with Treasury, further resources were made available for mandatory grants in 1991-92 if required.

<table>
<thead>
<tr>
<th>Table A1</th>
<th>ASSUMED LA GROSS CAPITAL EXPENDITURE IN WALES 1991-92</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>£m</td>
</tr>
<tr>
<td>New Build</td>
<td>11</td>
</tr>
<tr>
<td>LA renovation</td>
<td>87</td>
</tr>
<tr>
<td>Private renovation</td>
<td>114</td>
</tr>
<tr>
<td>Other</td>
<td>9</td>
</tr>
<tr>
<td>Total</td>
<td>221</td>
</tr>
</tbody>
</table>

*Source: Welsh Local Authority April 1991 Estimates*

4. The capital allocations for local authority renovation are more accurately targeted than in England because the Welsh Office has survey data on the stock condition for each authority from the Welsh House Condition Survey.

5. Investment in renovation of the council stock has been of a much higher level than in England. Between 1985 and 1990 an average of £512 per dwelling per annum was invested (1990 prices). Action to improve estates through the Priority Estates Project (PEP) has been widespread, and by the end of 1990 40 per cent of the local authority stock received a PEP-type locally based housing management service.

6. There are also problems of housing shortages in parts of Wales, particularly in areas of rapid economic growth and of large inward migration. The extent of the need for social housing will be affected by relative movements of house prices and incomes. Research commissioned by
the House Builders Federation and the Council of Welsh Districts concluded that in 1990 less than half of new households formed in Wales could afford to buy the cheaper second hand homes in their area. They concluded that the need for additional provision of social housing was not evenly spread and that shortages were greatest on the South Coast and in Rural Wales, but less evident in the South Wales Valleys (Ref. 24).

7. The smaller scale of Wales tends to assist closer joint strategic planning by authorities, the Welsh Office and Tai Cymru (Housing for Wales), with the Welsh Office placing the emphasis on the planning process and not just on a bidding exercise. The Welsh Office has annual meetings with each authority as a part of a programme of comprehensive strategic planning and review. Local authorities produce annual reports on performance.

8. The Welsh Office has published Housing in Wales, an Agenda for Action with detailed and quantified targets over a wide range of housing programmes. For example, a target is set for the reduction of unfitness in both the owner-occupied and private rented stock by 25 per cent by 1996-97. But, while it produces targets for the production of social homes, it does not make projections of absolute need.
Appendix 4: Housing Policy and Census Information

1. During 1992 and 1993 a good deal of information relevant to housing policy will be obtainable from the 1991 census. Information will be available at local authority, ward and, in some cases, enumeration district level. Some census tables will serve to validate existing estimates while others will be a unique source of new information.

2. At the simplest level the census will provide a stock count in each ward by tenure type. The numbers of housing association properties, those let with a person's job or business, private rented dwellings, both furnished and unfurnished and homes in multiple occupation, will be of particular interest. It will also give the ages and economic status of residents, the number of one-parent families and the numbers in communal establishments, all of which have relevance to housing policy.

3. The census will describe, at local authority and ward level, the changes in household numbers and composition between 1971, 1981 and 1991. The tables will separate out the numbers of households with 1, 2, 3 ... and 7 or more members.

4. Overcrowding and a lack of certain amenities will also be tabulated at the local level. This will help to inform local authority policy on grant aid in the private and owner occupied sectors. The details that will be given for households who are accommodated are:
   (i) 1 – 1.5 person per room
   (ii) more than 1.5 persons per room
   (iii) lacking or sharing use of bath/shower and/or WC
   (iv) no central heating
   (v) (iii) and/or (iv)
   (vi) not self-contained accommodation

5. These categories will be analysed both by household type and by the ethnic groups of the head of household. Even further detail is available for households with dependent children (Box A1, overleaf).

6. A particular problem when interpreting such census data is the definition of a household:

'A household is either one person living alone or a group of people (who may or may not be related) living, or staying temporarily, at the same address with common housekeeping.'
**Box A1**

**HOUSEHOLDS WITH DEPENDENT CHILDREN: HOUSING**

<table>
<thead>
<tr>
<th>Household composition</th>
<th>Total Households</th>
<th>Over 1 and up to 1.5 persons per room</th>
<th>Over 1.5 persons per room</th>
<th>Lacking or sharing use of bath/shower and/or inside WC</th>
<th>No central heating</th>
<th>Not self-contained accommodation</th>
<th>Tenure</th>
<th>No car</th>
<th>Total persons in Households</th>
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<td><strong>ALL HOUSEHOLDS WITH DEPENDENT CHILDREN</strong></td>
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<tr>
<td>Households of 1 adult with 1 or more dependent children</td>
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<tr>
<td>Dependent children aged 0-4 only</td>
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<tr>
<td>Dependent children aged 5 and over only</td>
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<td>Dependent children aged 0-4 and 6 and over</td>
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<td><strong>Dependent children in households of 1 adult with 1 or more dependent children</strong></td>
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<td>Dependent children aged 5-15</td>
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<td>Dependent children aged 16-17</td>
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<td><strong>Other households with dependent children</strong></td>
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<td>Dependent children aged 0-4 and 5 and over</td>
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<td><strong>Persons in other households with dependent children</strong></td>
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<td>All adults</td>
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<td>Dependent children aged 16-17</td>
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<td><strong>Households with 3 or more dependent children</strong></td>
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<tr>
<td>Households with 3 or more persons aged 0-15</td>
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<tr>
<td>Households with 4 or more persons aged 0-15</td>
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</table>
Enumerators were told to treat a group of people as a household if there was any regular arrangement to share at least one meal a day, breakfast counting as a meal, or if the occupants shared a common living or sitting room.

7. Thus the ‘homeless at home’ and other families sharing accommodation in cramped circumstances are unlikely to be defined as separate households. However, at local authority and ward level only, the census does provide information on concealed families and on households with two or more families (Box A2, overleaf). Not all such households will wish to form separate households in their own accommodation but the data will give some idea of unmet housing demand and of their relative needs.

8. Given that all of this information, and more besides, is available for every ward and in some cases for each enumeration district, housing officers could quickly be drowned with paper. The Commission's information paper *Numbers that Count* recommends that councils should plan carefully their use of the census and make use of the appropriate hardware and software (all of the above data is available in machine-readable form). The Commission's paper also recommends that each council appoints a lead officer and a user group, and that housing officers should use that forum to discuss their requirements. Much census data at ward level can be more readily understood through the use of mapping packages. Again, housing officers should discuss their use with the experts.
### 'CONCEALED' FAMILIES (10% sample)

<table>
<thead>
<tr>
<th>Family composition</th>
<th>All 16 and over</th>
<th>16-29</th>
<th>30-44</th>
<th>45 up to pensionable age</th>
<th>Pensionable age - 69</th>
<th>70-74</th>
<th>75-84</th>
<th>85 and over</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>TOTAL FAMILIES</strong></td>
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<td>Concealed families</td>
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<td>Lone parent families</td>
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<td>with dependent child(ren)</td>
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<tr>
<td>with non-dependent child(ren) only</td>
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<td>Couple families</td>
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<tr>
<td>with no children</td>
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<td>with dependent child(ren)</td>
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<td>with non-dependent child(ren) only</td>
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<td>Unconcealed families</td>
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<td>with no children</td>
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<td>with dependent child(ren)</td>
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<td>with non-dependent child(ren) only</td>
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</tbody>
</table>

*Note: May include a small number of heads aged under 16

### FAMILY COMPOSITION (10% sample)

<table>
<thead>
<tr>
<th>Family composition</th>
<th>Total families</th>
<th>Type of family</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Married couple</td>
<td>Cohabitng couple</td>
</tr>
<tr>
<td><strong>TOTAL FAMILIES</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>No children</td>
<td></td>
<td></td>
</tr>
<tr>
<td>With dependent child(ren)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>With non-dependent child(ren) only</td>
<td></td>
<td></td>
</tr>
<tr>
<td>In households with two or more families</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

*Source: Census tables*
Appendix 5: Rural Housing Development

1. Concern about the viability of rural communities, in particular the inability of low-income households to find affordable housing, has led the Rural Housing Trust (RHT, formerly the National Agricultural Centre Rural Trust) and ACRE (Advisory Council for Rural Education), among others, to explore methods of providing low cost housing for local people and to lobby government for action.

2. Many villages contain very little rented accommodation. Much of the council stock has been lost to right-to-buy sales, and some villages no longer have a council-owned stock, or experience a negligible turnover. Authorities have often had to use rural lettings to house a growing number of homeless households.

3. Rural house prices have increased well above the level of inflation. Wage levels in the rural economy are, however, generally lower than in urban areas and the gap has tended to widen.

4. In February 1989, the Secretary of State encouraged local planning authorities to consider the use of 'exceptions' sites, usually adjacent to village envelopes, for rural housing schemes. The value of such sites was expected to be well below that of normal housing land, but higher than agricultural value, thus providing a small incentive for the landowner, and allowing development costs to be considerably reduced. A housing association or trust would normally manage the properties and help to ensure that the properties continued to provide social housing in the future, often using a Section 106 agreement (see para 35). This impetus has stimulated a number of district councils to pursue this approach, although some, notably New Forest DC, were making progress before the government's initiative.

5. In May 1991, the government issued Circular 7/91, which deals with planning issues related to affordable housing. This confirmed the government's intentions, and gave guidance on assessing needs, defining 'local' areas, siting and environmental considerations (including problems with the Green Belt). However, some commentators feel that it was not positive enough, and emphasised what could not be done rather than what was recommended.

6. It is difficult to put a figure on the need for rural housing. However, most commentators believe that the current supply falls well short of meeting the need. A recent DOE report, *Evaluating the Low Cost Rural Housing Initiative* (Ref. 21) identified 264 development proposals nationally, 153 of which had received planning permission (most in the last two years). In total, these developments were expected to produce 3,000 dwellings, with between a third and a half being for rent, and the remainder for shared ownership.
CRITICAL SUCCESS FACTORS

7. The Commission conducted a survey of rural housing developments in Kent, particularly looking at the role district councils can play, and has also sought the views of the relevant national organisations. Good practice principles are summarised in Exhibit 44. There are many potential pitfalls in developing schemes, and the critical success factors are discussed below. These are:

— Developing supportive planning policies
— Obtaining Parish Council commitment
— Carrying out local needs surveys
— Finding suitable sites
— Designing the funding package
— Controlling long term occupancy

Developing supportive planning policies

8. Local plans should create a suitable planning framework i.e one which recognizes the need for ‘exceptions’ sites, and lays down a set of guidelines which define the type of development and the nature of the local need that is intended to be met. Usually such sites will be small and often on the edge of villages, just outside the confines of the built-up envelope.

9. The guidelines should lay down criteria which ensure that:
— a need has been identified
— proposals are supported by the Parish Council
— there is no alternative means of meeting the need
— the development comprises the right mix of housing types and tenures
— access to the housing is restricted to certain groups of 'local people', as defined by the council
— the arrangements are enforceable in the long term
— normal planning criteria with regard to local services, visual impact, infrastructure etc. still apply.

10. There is an unresolved debate about the wisdom of going further and identifying specific sites as suitable for such developments. Most councils now believe that this should not be done, because it can bestow a 'hope value' on a site, and hence defeat the object by increasing its value.

Obtaining Parish Council commitment

11. The initiative for rural housing schemes can come from a variety of sources, but the Parish Council (PC) is undoubtedly the most common. Even if this is not the case, the PCs’ support for the venture is essential, even though it is the District Council (DC) which is the housing authority.

12. The DC has an important role to play in educating PCs, in stimulating interest and in showing what can be done e.g. through seminars or officers attend PC meetings to promote the idea.
13. Local needs surveys are essential and many Rural Community Councils (RCCs) provide funding for such projects. Where they do not, DCs should consider providing funding (which will be small in relation to total scheme costs) or support e.g. printing facilities or analysis of survey returns.

14. Ensuring that the PC has the necessary support is crucial, but there are different views about how it should be provided. The DC is by no means the only vehicle. ACRE is currently running a pilot project in four areas, due to report before the end of 1992, to examine the contribution of an independent 'enabler'. The RHT view is that fieldworkers need access to specialist central support and an in-house housing association if they are to be fully effective. RCCs also provide support in many counties.

15. However, there is no doubt that where the DC does adopt a proactive role, it can have a substantial impact. Ashford BC have appointed a Rural Housing Initiatives Officer, who has successfully helped initiate and support a number of developments. As a result, 80 per cent of parishes have completed local needs surveys. This in large part explains why Ashford accounted for 6 out of the 7 rural housing schemes in Kent which were awarded an SCA for 1991-92.

Carrying out local needs surveys

16. The only justification for providing low cost rural housing schemes as an exception to normal planning policies is in order to meet a proven need. This is done by carrying out a survey of local inhabitants, usually using a variant of the survey developed by the RHT. Schemes which start with an identified site should be treated with caution until a survey has been completed.

17. The most successful results from surveys have been found where there has been a high level of personal involvement e.g. where the forms have been delivered by hand and explained and collected in person. These tend to provide much more detailed and reliable responses.

18. Once a need has been identified, and a village meeting has confirmed that a scheme should proceed, a second stage survey is required in order to establish the prices/rent levels that would be affordable and the mix of tenures needed. It is often found that the need for rented housing is higher than implied by the initial survey.

Finding suitable sites

19. A suitable site has to meet a number of criteria, such as:
— satisfying the stipulations of the DC’s exceptions policy
— small (usually sufficient for 6-10 houses)
— a low purchase price
— economic to develop
— acceptable physical relationship to the remainder of the village
— acceptable visual effect on the landscape
— access to services and facilities
— acceptable with regard to highway issues.
20. Possible sources of land include local landowners or farmers; the Church; Crown property; parish, district or county council; MOD. Planning officers and local architects will often be able to help in the identification of promising sites, and the latter can advise on development costs.

21. In Devon, a Land Bank Trust has been set up to take out options on land or purchase it, often before a need has been proven. A number of other counties are interested in the approach, but further development has at the moment been suspended pending an evaluation of the Devon scheme by the DOE.

**Designing the funding package**

22. A crucial part of funding package design is to check the income levels of potential applicants so that the right mix of tenures is provided and costs to the consumer are affordable. The DOE's recent evaluation of the rural initiative suggests that this has not always been the case. The research found that land costs were often much higher than expected, and, as a result, rental or shared ownership costs were not affordable by the original target group. It suggests limits of £50 per week for rented housing or an equity of £30-35,000 for shared ownership, varying according to local circumstances. DCs have a key role to play in helping to determine affordability criteria.

23. Unfortunately, there is no simple prescription for affordability. It is generally better to let local needs surveys identify appropriate price ranges for both rented and shared ownership accommodation. These price levels should then drive the funding requirements. If the funding is the starting point ('these are the prices we'll have to charge'), there is a danger that the schemes will not be affordable and that local needs will not be met.

24. Wage levels averaging £8,000 p.a. (gross) are not untypical in rural areas. Sutton Hastoe HA feels that rents of about £40 p.w. are appropriate in these circumstances. Although extra rent would in many cases be paid entirely out of housing benefit, the effect of higher rents on extending the poverty trap must also be taken into account. Shared Ownership could be targeted at people on higher incomes, say £12,000 p.a., who could afford a higher level of expenditure e.g. £70 per week.

**Shared Ownership**

25. Shared Ownership schemes can often be self-financing i.e. require no subsidy other than cheap land. The cost to the purchaser is made up of two elements: the mortgage cost, which depends on the equity share purchased, and the rental cost, normally calculated in proportion to typical rent levels less an allowance for management and maintenance, which is the responsibility of the leaseholder (Table A2).
Table A2
SHARED OWNERSHIP AT £70 P.W.

<table>
<thead>
<tr>
<th></th>
<th>£</th>
<th>Notes</th>
</tr>
</thead>
<tbody>
<tr>
<td>Construction costs, fees etc.</td>
<td>40,000</td>
<td></td>
</tr>
<tr>
<td>Averted cost of land</td>
<td>20,000</td>
<td></td>
</tr>
<tr>
<td>Total value</td>
<td>60,000</td>
<td></td>
</tr>
<tr>
<td>Equity purchased (60%)</td>
<td>36,000</td>
<td></td>
</tr>
</tbody>
</table>

Consumer costs £ per week

| Mortgage repayments (after tax relief) | 60       | (1)   |
| Rental cost                          | 10       | (2)   |
| Total cost                           | 70       |       |

Notes: 1. 90% repayment mortgage over 25 years at 12% interest rate, with 25% tax relief.
2. 40% of £24 = Rent (£40), less management and maintenance allowance (£10) and major repairs provision (£6).

26. If market values of houses are higher (because housing land is more expensive), then a lower equity share is necessary to keep to a given price level (Table A3).

Table A3
SHARED OWNERSHIP AT £70 P.W. – EFFECT OF LAND PRICES

<table>
<thead>
<tr>
<th>Market value</th>
<th>£50,000</th>
<th>£60,000</th>
<th>£70,000</th>
<th>£80,000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Equity share</td>
<td>75%</td>
<td>60%</td>
<td>50%</td>
<td>40%</td>
</tr>
</tbody>
</table>

Consumer cost £ per week

<table>
<thead>
<tr>
<th>Mortgage repayment</th>
<th>£ per week</th>
<th>£ per week</th>
<th>£ per week</th>
<th>£ per week</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rental cost</td>
<td>60</td>
<td>60</td>
<td>58</td>
<td>53</td>
</tr>
</tbody>
</table>

27. The total funding produced is similar across a wide range of market values because the rental income will be higher, enabling a higher loan to be financed (Table A4).

Table A4
FUNDING SHARED OWNERSHIP SCHEMES

<table>
<thead>
<tr>
<th>Market value</th>
<th>£50,000</th>
<th>£60,000</th>
<th>£70,000</th>
<th>£80,000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Equity purchased</td>
<td>£37,500</td>
<td>£36,000</td>
<td>£35,000</td>
<td>£32,000</td>
</tr>
<tr>
<td>Loan (1)</td>
<td>£3,700</td>
<td>£6,000</td>
<td>£7,500</td>
<td>£9,000</td>
</tr>
<tr>
<td>Balance</td>
<td>£800</td>
<td>(£500)</td>
<td>£1,000</td>
<td></td>
</tr>
</tbody>
</table>

Total finance (2) £42,000 £42,000 £42,000 £42,000

Notes: 1. Loan supported by rental payments, assuming low-start finance at 12% interest rate with 4% deferred, and 4% voids
2. Construction cost, fees etc. (£40,000), plus actual land cost (£2,000)

Rental Schemes

28. Rental Schemes almost always will require some additional subsidy over and above the land price discount (Table A5, overleaf).
### Table A5

**SUBSIDY REQUIREMENT FOR RENTAL SCHEMES**

<p>| | | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Loan supported by rent (1)</td>
<td>£15,000</td>
<td></td>
</tr>
<tr>
<td>Additional subsidy</td>
<td>£27,000</td>
<td></td>
</tr>
<tr>
<td><strong>Total funding</strong></td>
<td>£42,000</td>
<td></td>
</tr>
</tbody>
</table>

*Notes: 1. Loan supported by rental payments less management & maintenance costs (£40 - £16), assuming low-start finance at 12% interest rate with 4% deferred, and 4% voids*

29. The funding will often come from the LA or the Housing Corporation, and there are now special allocations specifically for rural schemes. In 1991-92, the Housing Corporation planned to approve schemes for 1500 new units in communities with less than 1000 inhabitants, and the DOE made £50m available in SCAs for rural schemes (to fund HAs via LA HAG).

30. It is not always necessary to finalise the package right at the start. Sutton Hastoe HA operate by initially designing a scheme as shared ownership, with at least one rented dwelling, financed from their own reserves. The length of the development period allows one or two bids for additional funding to be made to the Housing Corporation, and in this way a proportion of rented dwellings can often be included in a scheme.

### Mixed Tenure Schemes

31. Schemes can consist of a mix of rented and shared ownership units. Naturally, where a relatively high proportion of the units are shared ownership, the overall subsidy per dwelling is lower than if the scheme is predominantly for rent (Table A6). However, this should only be contemplated if the local needs survey determines that this is really what is needed.

### Table A6

**SUBSIDY REQUIREMENTS FOR MIXED TENURE SCHEMES**

<table>
<thead>
<tr>
<th>Proportion of rental units</th>
<th>0%</th>
<th>25%</th>
<th>50%</th>
<th>75%</th>
<th>100%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Averagesubsidy/unit</td>
<td>–</td>
<td>£6,700</td>
<td>£13,500</td>
<td>£20,000</td>
<td>£27,000</td>
</tr>
</tbody>
</table>

*Notes: 1. Assumes averted cost of land is £20,000/unit.*

### General Issues

32. The calculations above assume a very low cost for land, which is achievable in some circumstances, although the recent DOE report (Ref.21) showed that prices often exceed nominal values. There is even some evidence that the extra funding for rural schemes and the pressure to commit these funds quickly has caused some HAs to bid up the land price, e.g. to £50-70,000 per acre in Hampshire. DCs might wish to provide top-up funding for land purchase, but should be careful not to encourage this trend.

33. Rural housing schemes can be more expensive than traditional developments. Overheads have to be spread over a small number of units, developers often have to face additional costs because of planning conditions, such as special materials, landscaping etc., and providing infrastructure can also be expensive. The Housing Corporation's Total Cost Indicators (TCIs) no longer contain any special allowances for rural schemes.
Controlling long-term occupancy

34. Social housing should remain available in the long term at affordable prices. While rented housing requires only control over occupancy, shared ownership property must also be limited in respect of resale prices and further developments. All permitted development rights should be withdrawn so that alterations to the scheme require planning consent. Otherwise, extensions and other alterations could be undertaken which add to the property's value and render it unaffordable.

35. The main control mechanism is the Section 106 agreement (Town and Country Planning Act 1990); model agreements have been prepared by many interested organisations, including the RHT. Such agreements can be used to control future occupancy when the property is sold. Other controls such as mortgage endorsements or restrictive covenants can also be used. The covenant should be vested with a local body, such as a housing association or village trust, who can oversee it. All interested parties, such as the landowner, developer, district council, parish council and housing association, will need to be a party to the agreement.

36. Prior to Circular 7/91, in schemes in which public subsidy had been provided, shared-owners had to be given the right to 'staircase out' i.e. buy the entire freehold, causing the dwelling to be lost as social housing. This is why associations such as English Villages HA developed all their schemes without any public subsidy. The new circular gave LAs and housing associations the ability to limit equity shares to 80 per cent in communities up to 3,000 inhabitants, although many commentators believe that even this limit is too high. The Housing Corporation have advised HAs that their leases should give them the option to buy back the property, so they can sell it at a lower equity share. Funding should not compromise the Corporation's ADP since staircasing provides a flow of capital receipts of approximately the right size.
References


