HOUSE OF COMMONS
COUNCIL HOUSING GROUP

Council Housing: Time to Invest

Fair funding, investment and building council housing

Our report to the Government's Review of Council Housing Finance

Paper 2 INTERIM VERSION

Fully funding allowances: calculating 'level of need'

REVIEW OF COUNCIL HOUSING FINANCE

"The purpose of the review is to ensure that we have a sustainable, long term system for financing council housing... [it will] consider evidence about the need to spend on management, maintenance and repairs." Yvette Cooper, 12 December 2007

"Housing Minister Margaret Beckett said she wanted local authorities to play a bigger role in the delivery of council housing." (DCLG, *New freedoms to increase council house building*, 21 January 2009)

Preface

by Austin Mitchell MP, chair of the House of Commons 'Council Housing' group

Ministers launched a 'Review of Council Housing Finance' in 2007 with the promise to "ensure that we have a sustainable, long term system for financing council housing" and "consider evidence about the need to spend on management, maintenance and repairs". The Housing Minister is now also consulting on new rules that will enable local authorities to start building new council housing again.

This Review is due to report this spring. It will, we hope, provide for the 'Fourth Option' so long campaigned for. It must create a level playing field freeing councils to invest in existing and new homes, on equal terms with Housing Associations.

To influence the outcome of these consultations our group issued a call for evidence to identify the level of funding required to manage, maintain, repair and improve exiting council housing and to start building a third generation of first class council homes.

We have received written evidence from a wide range of organisations. On 25 February 200 tenants, elected councillors, council officers, trade unionists and academics took part in our inquiry session at Westminster. We heard verbal evidence from 26 delegations during the day.

To take the debate forward we are publishing a series of interim papers with the aim of printing a full report. We welcome comments and call for additional evidence to strengthen the arguments. We hope to maintain the dialogue we have started with Margaret Beckett and have also asked to meet the Prime Minister to put the case.

If you would like to contribute to this 'work in progress' please send submission to my office.

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Papers

This report is dedicated to Alan Walter, chair of Defend Council Housing. Alan proposed and organised our Inquiry, worked tirelessly to make it the success it became, and died working on this Report. We trust this Report is the final 'heave' to win a secure future for council housing. Without Alan it would not have been possible – we are committed to winning in his name.

2. Fully funding allowances: calculating 'level of need'

2.1 Introduction: Stopping the robbery

In our last report (*Support for the 'Fourth Option' for Council Housing,* June 2005), we concluded:

"The present funding regime consistently discriminates against council housing… To give tenants real choice we need a level playing field for council housing in terms of economic options and financial regulations. Central is a commitment to ring fence all the money that broadly 'belongs' to council housing".

Everyone now accepts that the present subsidy system of council housing finance is unfair. Even the government, in setting up a review of the system, accepts that what we have at present is not "sustainable" and that there will need to be change to ensure a "sustainable, long term system for financing council housing". (Yvette Cooper, announcing the review, 12 December 2007)

CLG Minister Sadiq Khan says of the current HRA subsidy system: 'There is room for change' and describes it as "a system that appears to be past its sell by date." (Hansard 27 March 2009)

Tenants call it robbery. The robbery started in 1990 when the new Housing Revenue Account (HRA) system was first introduced:

"This system has been criticised because the rent payments of 'better off' tenants not in receipt of Rent Rebates help to meet the cost of giving financial help to poorer tenants via housing benefit. This has been called a 'tenants' tax' and has led some tenants to form the Daylight Robbery Campaign to argue for changes in the subsidy system."(*Rent Rebates and Local Authority Housing Revenue Accounts*, House of Commons Library, November 2000)

Now the mechanism has been changed – today it is called 'negative subsidy' and Housing Benefit is no longer involved – but the robbery has continued ever since. To distinguish this from 'Daylight Robbery' tenant campaigners call it 'Moonlight Robbery'.

Each year government decides how much rent it thinks each council should charge its tenants (Guideline Rent). In 2009/10 this amounted to £6.2 billion. It also decides how much each council needs for management and maintenance of its homes (Management & Maintenance Allowances) and major repairs to keep the homes up to standard (Major Repairs Allowance). The allowances were a total of £4.5 billion this year. The difference – around £1.7 billion in 2009/2010[1] – is the robbery, and it is set to increase every year. Government also profits substantially from capital receipts.

A half-baked solution within inadequate and arbitrary limits will lead to the same problems recurring in a few years' time

Some argue that it's a complicated system with winners and losers and some authorities subsidising others. But the real issue here is that government is profiting from council housing. Nationally council tenants are all being robbed. Ministers argue that a lot of this money is used to pay for council housing debt. We set out in paper 3 why this is not justified.

The real problem is not how the robbery is distributed but that it leaves all councils unable to provide the standard of housing that tenants need. Whichever way you assess the level of need to spend on council housing, it is always much more than the allowances.

"Not only is [negative subsidy] deeply unfair in principle, but it actively prevents councils from investing in, improving and repairing their housing stock…This additional tax on our [Barking & Dagenham] tenants operates at the same time as we have an investment gap of about £100 million, looking to 2011… In little more than two years, the [Barking & Dagenham] Housing Revenue Account is likely to go into deficit." (Jon Cruddas MP, Hansard 27 March 2009)

Ministers need to deliver a sustained fair funding settlement, if this Review is not to infuriate tenants further. A half-baked solution to keep within inadequate and arbitrary pre-agreed limits, will lead to the same problems recurring in a few years' time. After years of attrition, tenants will need firm evidence to convince them the Review outcome will address the funding shortfall systematically.

Key to finding a solution is the 'level of need' to spend on council housing. We examine different ways level of need can be assessed, including a brief round-up of already published research in this area (2.2). The starkest evidence is the actual difference in each area between the amount councils estimate they need and the resources allocated, and we have gathered considerable evidence of this through our inquiry (section 2.3). We also present the results of research carried out for our group into the difference between allowances and actual spend across all authorities in England (section 2.4).

We have found a number of criticisms of ➔

[1] These figures are before the promised rent rise reduction (maximum of £0.2 billion) since we do not yet know how many councils will take it up.

➜ the formula used to calculate allowances (section 2.5). If government is to keep a formula approach to calculating allowances, then it must be adequate, and it must also have long-term stability built in.

There is also a huge problem with the backlog of investment still needed to deal with historic disrepair. The need to meet investment backlog cannot be determined by formula but must take into account the actual condition of homes. We examine this issue in section 2.6.

We consider the standards on offer to tenants in stock transfer proposals (section 2.7), which is an important benchmark. Tenants, councillors, MPs and trade unions have been calling for years for a level playing field between councils and stock transfer landlords, and it is a principle the government has now accepted in its terms of reference for the review. Finally we make recommendations (2.8).

2.2 Allowances are not fully-funded: independent evidence

In 1997, when the present government came to power, they identified a backlog of £19 billion of investment needed in council housing. Tenant groups and others lobbied against the injustice of rent robbery, while disrepair mounted. In response, government took housing benefit out of the subsidy system and introduced the Major Repairs Allowance.

The introduction of the MRA reduced the robbery by £1.2 billion a year, though by no means ended it. Government also commissioned independent research into how much management and maintenance allowances for council housing should be.

In 2003 the government finally published this research. The results were shocking – the Building Research Establishment found that in 2001-02 Management and Maintenance Allowances should have been £5.5 billion when in fact they were only £3 billion (*Estimation of the need to spend on maintenance and management in the Local Authority housing stock*, ODPM, June 2003). In 2004 Parliament was given an update and told "the 2004-2005 level of allowances would have to increase by about 67% in real terms to reach the estimated level of need" (PQ 1705 03/04, 29 April 2004). Allowing for stock numbers and inflation, M&M allowances are still about £1.3 billion too low. This means they need an uplift of 40% to be fully funded.

Government research on the gap between allowances and level of need completed in 2008 must be published in full, without manipulation of its conclusions

After lobbying by tenants, Government commissioned updated research on the gap between allowances and need, which is completed but still (April 2009) not published. This must be published in full, without manipulation of the conclusions. The delay in publication leads to suspicion that the research adds yet more damning evidence of the need to increase allowances significantly.

The government recently carried out a pilot of six authorities investigating issues around 'opting out' of the national HRA. This 'self-financing' pilot carried out a modelling exercise to work out the level of investment needed over 30 years based on "minimum stock investment needs identified in stock condition surveys". This was less than the level of need which would be identified by a stock transfer valuation and equates to Decent Homes plus essential works. Despite this, the total investment need for just these six authorities over 30 years is over £4 billion; while the resources available are only set at £2.6 billion. So the allowances are £1.3 billion too low *for just these six authorities* over 30 years.

"For all authorities, the need for future capital maintenance and investment to maintain the decent homes standard is higher …the business plans for all authorities indicate they need a level of investment over 30 years which is higher than the spending needs assumed in the HRA subsidy system." (*Self-financing of council housing services: Summary of findings of a modelling exercise*, CLG, March 2008)

"We are talking about the major repairs allowance across the country being 40 per cent short of what most people would estimate is a minimum investment need over 30 years" (Steve Partridge, Housing Quality Network consultant supporting the review group, *Inside Housing,* 14 March 2008).

Based on these findings the shortfall in Major Repairs Allowance would be £0.95 billion a year, on top of the shortfall in Management & Maintenance Allowances of £1.3 billion per year identified by the BRE. To fully fund allowances based on this evidence would need a 75% uplift in MRA and a 40% uplift in M&M.

2.3 Evidence from our Inquiry: analysis of projections of need

Our inquiry shows how local authorities' own projections of need compare with the allowances.

We asked local authorities to tell us how ➜

spending compared to allowances. However, this shows only part of the picture. In considering what level allowances should be, estimates of need must be taken into account.

"Kirklees Council Housing Asset Management Plan is forecasting a current overall capital resource deficit of £48m over the next 30 years, compared to actual cost requirement over the same period, to maintain current housing stock to Government's Decency Standard." (Kim Fox, Relationship & Performance Manager, Kirklees District Council, written evidence)

In estimating the need to spend, tenants and councils also put forward positive proposals of what could be achieved at a local level if they were fully-funded.

"£10m per annum is equivalent to increasing the annual gas servicing programme for one and a half years, increasing repairs to 3,500 empty properties, providing double glazing and central heating to 2,000 properties, completing a lift maintenance refurbishment programme for two years, completing 65,300 day to day responsive repairs and providing estate services such as cleaning, concierge, wardens to up to six months in the year." (Derek Novell, Birmingham tenant, oral evidence)

Caradon council set out a detailed proposal, with costings, of much-needed services in their district from introducing a handyman service to expanding the Anti-Social Behaviour team. They also provided costed details of a major repairs programme to accelerate their double-glazing programme and install sustainable heating systems. Tenants from the Caradon Tenants Forum put forward a convincing case that, in an area of exposed coastal and moorland properties where elderly tenants cannot afford to heat their homes, these are essential works which should be adequately funded.

Of 16 authorities estimating their level of need to spend, in one year there was a £0.2bn shortfall – £801 per home less than level of need (a shortfall of £240 on M&M, and £561 on MRA annually per home).

Based on 1,841,363 homes throughout England as a whole, this extrapolates to:

Difference between allowances and level of need on M&M:	£0.4 billion
Difference between allowances and level of need on MRA:	£1 billion
Total difference between allowances and level of need:	£1.4 billion

These figures are of course only a snapshot for one year. However, the sample of 16 authorities is considerably larger than the sample of six used in the self-financing pilot. It includes a mixture of large and small, rural and urban, with-debt and debt-free councils, some with ALMOs and some directly managed.

We also asked questions about the picture over several years. Of 22 councils who responded to the question about meeting even the very modest Decent Homes Standard by the deadline of 2010, 27% said they could not meet the Decent Homes deadline. Half of those could meet it late or if they were able to access the promised ALMO funding – but 14% said they could not meet it at all.

"There is currently a shortfall of £52m up to 2009/10." (Angela Warburton, Assistant Chief Executive, Corby BC, written evidence)

In the long term the position is much worse.

"We have examined how allowances would need to change to ensure 30 year stability, and on a preliminary examination it appears M&M allowances would need to rise by around 10% and the MRA by 30%.... At the time of our stock option appraisal sign off (2006) the financial model indicated the HRA would go into deficit around 2020 and that deficit would rise to over £50m by the early 2030s." (Reading BC, written evidence)

Only one council (out of 21 who responded) said they could "sustain improvements over the next 30 years"; while 95% (20) said they could not. Ten of those councils put an estimated figure on the shortfall, and these added up to £1.09 billion over 30 years. If that figure were extrapolated to cover all the homes in England it would put the 30-year shortfall at £24 billion.

"When our £55m of decent homes supported borrowing runs out, how are we going to maintain our homes at the decent homes level? We can see no other option than to transfer our homes to a housing association, but this is not what our tenants want." (Councillor Anne Webb, Executive Portfolio Holder for housing, Stevenage)

£24 billion over 30 years is a large figure, but significantly less than £1.4 billion a year – we suggest it indicates a significant long-term shortfall plus an urgent short-term need to deal with the present investment backlog (see 2.6 below).

Both these problems can be solved. Writing off historic debt and ending the robbery from ten-

➜ ants rents would free up £1.7 billion a year. More than enough money has been stolen from council housing over the years to make a good case for gap funding to meet the immediate backlog. We set out these arguments in Paper 3: *The money's there: debt write-off, gap funding and receipts*.

2.4 Allowances are Inadequate: A Comparison with Actual Spend

In answering our questionnaire, 22 local authorities gave annual figures for their actual spend and allowances. They spent a total of £0.16 billion (2007-8) more than their allowances, an average of £454 per home. We can also present research findings into a comparison of spend with allowances across all authorities in England.

Every year local authorities submit an 'HRA Business Plan Statistical Appendix' to the government which contains information on their spending on housing[1]. Spending on major repairs and maintenance is given as an annual figure for the whole of England. Spending on management is given as weekly averages for each authority. Only rough comparisons with the allowances set by government for major repairs, maintenance and management can be made. Nevertheless, analysis of these figures demonstrates that local authorities routinely spend more than their allowances, providing further evidence that the allowances are completely inadequate.

Taking major repairs and day-to-day maintenance together, the statistics show that local authorities in England spent over a billion pounds more than their allowances in 2007-08.

Major Repairs Allowance[2]	Maintenance Allowance[2]	Total Allowances	Actual Spend	Difference £	Uplift required
£1.25bn	**£2.04bn**	**£3.29bn**	**£4.35bn**	**£1.06bn**	**32%**

On management costs: of the 180 authorities who submitted information on management costs in 2007-08, 90% of them spent more than their allowances (163 authorities).[3] The median difference between the weekly management allowance per dwelling and the actual weekly average cost per dwelling was a 59% higher spend than allowance, with 31 authorities spending more than double the allowance (over 100%), and the biggest difference being 209% more than the allowance. The picture over the last five years shows median spend on management dropping compared to allowances:

Year	Median % uplift required	Highest % uplift required
2003/04	**80%**	**216%**
2004/05	**77%**	**214%**
2005/06	**71%**	**458%**
2006/07	**72%**	**191%**
2007/08	**59%**	**209%**

Further evidence that authorities spend more than their management and maintenance allowances comes from the HRA review itself :

"The Review is set against the background of a significant body of evidence that present allowances are insufficient to sustain the condition of council housing and housing management services: In 2006-07 councils spent £605m more on M&M than allowances provided." (Housing Finance Review, *Narrative No. 2: Costs and Standards*, May 2008)

The picture is complicated by the fact that although the government uses formulas to calculate separate management and maintenance allowances, councils apportion the total amount they spend based on need not formula. If there are heavy demands on the budget for capital expenditure because the MRA is underfunded, for example, councils have to cut back on services and day-to-day repairs in order to increase resources for major repairs.

"Southampton City Council over the last five years has reduced the level of expenditure in real terms on day to day maintenance and cyclical annual repairs. We plan to carry on doing this over the next two years in order to retain the levels of investment required to maintain a healthy level of capital investment in our housing stock in order to meet our Decent Homes, Decent Homes Plus and Decent Neighbourhoods commitments which we have agreed with our residents." (David Singleton, Finance Manager, Southampton City Council, written evidence)

The fact that the difference between spend ➜

1. www.communities.gov.uk/housing/housingresearch/housingstatistics/housingstatisticsby/localauthorityhousing/dataforms 2007-08 is the latest year available.
2. In order to compare like with like we have adjusted the allowances from the CLG schedules (set at the beginning of 2007-08) to take out those authorities who transferred their stock during the year and so are not included in the statistics on actual costs (source: CLG website).
3. We have not been able to construct a global figure for M&M from the Business Plan statistics because the statistics are not complete – not all local authorities submit all the information. The CLG department have estimated ('imputed') total figures on maintenance and capital works but not on management.

➜ and allowance on management is dropping is likely to be explained by the fact that all allowances are reducing in real terms and authorities increasingly need to make savings in order to plug holes in capital budgets.

Local authorities have made the point to us that they are constrained in what they are able to spend by the level of the allowances. Those councils with other income sources (such as commercial income from shops on estates) are able to spend more and clearly do. But even if councils stay within their allowances it doesn't prove that this meets need. In considering what level allowances should be, we consider that estimates of need provided by independent research and by local authorities themselves must be taken into account.

2.5 How allowances are calculated: criticisms of the government's formula

To calculate the allowances for management and maintenance (M&M) and major repair (MRA) the government uses a formula which has been much criticised. The consultation paper *Handling of the Housing Revenue Account Subsidy Determination 2009-10 and 2010-11* (Department for Communities and Local Government, September 2008) sets out how allowances are calculated. Councils inform the department of their stock numbers, and the number of voids or re-lets in the year. The department then applies a formula based on the following criteria:

- a "base allowance allocated to each dwelling type" so allowances vary depending on number and type of dwellings, whether flats/houses, traditional or 'non-traditional', high or low-rise, detached or terraced, and built in which period;
- a factor for crime – based on reported not actual levels;
- Building Cost Adjustment (BCIS) as prices vary in different areas;
- the level of 'deprivation' within an area;
- inflation, which is based on the 'GDP deflator'.

There are many criticisms of this formula.

Stock types

Councils complain that the allowances do not take into account the needs of non-traditional stock. There is just one blanket figure in the MRA calculation for all non-traditional dwellings, although:

"There are a whole host of different types of these properties and the issues associated with them vary accordingly.... Some Local Authorities will have properties of high rise construction. As with the non-traditional properties, these blocks are potentially significant liabilities in the long term in terms of repair work to the structure and also replacement of the central electrical and mechanical plant." (guidance note on *Stock Condition Surveys*, Community Housing Task Force)

Inflation

"This allowance [MRA] was supposed to keep pace with inflation. There is, however, a wealth of evidence to suggest that it has not; even the Audit Commission will not allow a reliance on the MRA to represent the amount of depreciation that occurs in an asset – something the original MRA was able to do." (CIPFA Local Authority Housing Panel Newsletter, April 2008)

The allowances use a measure of inflation called the 'GDP deflator' which is different from the Retail Price Index (RPI) – the measure of inflation used to increase rents. For example in the consultation on the 2009-10 subsidy determination the government says:

"Because September 2008 RPI is 5%... it produces some very high average guideline rent increase figures… Allowances for MRA have been uprated by the GDP deflator which currently stands at 2.75% for 2009-10." (Letter from CLG to local authorities, September 2008)

Building costs.

"Nationally-set inflation allowances do not always reflect experience locally and in the real housing economy, where there are many variables to consider such as recruitment and retention, local job markets and staff costs… The standard stock condition approach, based on the expected lifetime of standard components, does not paint the whole picture as costs are heavily affected by local factors. Maintenance costs can vary widely with the general culture of treatment of the property, intensity of use, vandalism, deprivation, child densities, lettings policy, etc, which fluctuate from area to area." (Housing Finance Review, *Narrative No. 2: Costs and Standards*, May 2008)

Deprivation

"The current system is based on deprivation indices and areas vary greatly in deprivation terms. Working with national formulae makes it ➜

"This allowance [MRA] was supposed to keep pace with inflation. There is, however, a wealth of evidence to suggest that it has not; even the Audit Commission will not allow a reliance on the MRA to represent the amount of depreciation that occurs in an asset – something the original MRA was able to do."
CIPFA Local Authority Housing Panel Newsletter, April 2008

➜ hard to be flexible or to accurately reflect local circumstances – for example pockets of deprivation within better-off areas" (Housing Finance Review, *Narrative No. 2: Costs and Standards*, May 2008)

Weighting to keep overall spend down

The formulas also contain complicated adjustments designed to ensure that spending is kept down overall, and not adjusted by a genuine level of need. For example, in the Major Repairs Allowance:

"The geographical adjustment ensures that application of the geographical cost factors does not change the total spending on MRA" (*Housing Revenue Account Manual 2006-07*, CLG)

What's missing

The allowances have also been criticised because of the elements they do not include.

"Environment and neighbourhood works are not recognised in M&M and MRA and the system may need to be based on a better understanding of a wider range of costs….The definition of housing management has also become more elastic. It used to be based on the core services of rent collection and repairs, but councils and ALMOs now provide many additional services funded from the HRA – such as neighbourhood wardens, ASB work, family support, worklessness, neighbourhood management, community development and regeneration activities." (Housing Finance Review, *Narrative No. 2: Costs and Standards*, May 2008)

"In some cases work required to the general environment surrounding the properties is as important as the work to the properties themselves. Whilst this 'environmental' work may not contribute to 'decency' it may be essential in the context of 'sustainability'. It is essential that all necessary work is reflected within the business plan and the opportunity should be taken as part of the stock condition survey exercise to identify the need for this work e.g. additional external lighting for security, improved fencing, off-road car parking etc." (guidance on *Stock Condition Surveys*, Community Housing Task Force, undated)

There is no reason why using a formula in itself should be a problem. In their report the BRE use a formulaic approach to calculating allowances, but come up with a much higher figure than the government. If government is to keep a formula approach to calculating allowances, then it must be adequate, and it must also have long-term stability built in. (See conclusions, below).

The need to meet investment backlog, however, cannot be determined by formula but must take into account the actual condition of homes. We examine this issue next.

Formula must be adequate and have long-term stability built in. Funding the investment backlog must take account of actual conditions

2.6 Calculating need: the investment backlog

The government has set a standard called the Decent Homes Standard which it requires councils to meet by 2010, and it has set the definition for this standard and given councils a methodology for working out its cost. The criteria for this is based on a stock condition survey which looks at the actual condition of the homes. This naturally shows up all the problems where homes have deteriorated because of the under-investment over decades. In 1997 the backlog from this historic under-investment was estimated at £19 billion.

The only resource government provides for councils which directly own and manage homes to do capital works which will bring homes up to Standard is the Major Repairs Allowance (MRA). But the MRA was not designed to meet backlog or take into account the actual condition of homes.

"The Major Repairs Allowance (MRA) was introduced in 2001–2002. It represents the estimated long-term average amount of capital spending required to maintain a local authority's housing stock in its current condition. The 2007–2008 MRA is based on a set of national average unit costs for each of 13 property types (or 'archetypes')…

"These national unit costs were calculated by estimating the annual cost of replacing individual building elements (e.g. windows, kitchen, bathroom, roof) as they reach the end of their useful life. Data from the English House Condition Survey and the Valuation Office Agency were then used to establish, at the national level, the likely timings and costs of replacement of building elements for each archetype. These amounts were summed to estimate the total expenditure needed for each archetype to replace these building elements over the next 30 years." (*Housing Revenue Account Manual 2006-07*, CLG)

The government admits that there is no direct correlation between the way councils are expected to calculate their need to spend to ➜

➜ meet and maintain the Decent Homes Standard with the way the Major Repairs Allowance is calculated:

"The MRA allocations to local authorities will be based on information from the English House Condition Survey (EHCS)… the EHCS will be used to estimate the national average expenditure… LAs …are not required to submit any linked stock condition information that may have been collected through a local authority level stock condition survey." (*Collecting, managing and using housing stock information: Frequently asked questions*, CLG February 2007)

The government may be happy to draw a clear distinction between ongoing major repairs to maintain condition and the need to clear the investment backlog and bring housing up to Decent Homes Standards. But to tenants what matters is that there are not enough resources (calculated by a government formula) to give homes the investment they need (calculated by government criteria):

"Swindon is carrying out its second 'options appraisals'. It employed Tribal to report on the finances over the next 30 years. According to this report the projected allowance for management and maintenance, based on the current formula, will be £598 million over the 30 year period; actual costs projected over that period are estimated to be £791 million, or £193 million less than will be needed. In order to maintain the Decent Home standard over the 30 year period Tribal estimated that Swindon needs £438 million Major Repairs Allowance. But the amount the government says we need is only £254 million – an £184 million difference." (Martin Wicks, Secretary, Swindon TUC, and tenant, written evidence)

In our inquiry delegations explained to us how their council homes and estates urgently required a huge increase in resources to manage, maintain, repair and modernise. Many council homes in need of major modernisation have not received a penny of investment, with devastating effects on tenants.

"We've had two surveys recently and the uppermost thing in tenants' minds is the condition and the maintenance of their properties. Our Decent Homes programme ends next year and after that the whole situation is just unthinkable." (Terry Adkin, Vice-Chair Norwich Tenants CityWide Board, oral evidence)

"I am 68 years old and retired, my husband is 63 and he is a self-employed carpet fitter. We pay full rent and council tax and £108 per month for services. This means we are living on the edge financially. We cannot apply for any help as our money is teetering on the limit. We are in desperate need of some form of central heating as we cannot afford to switch on the electric night storage heaters." (Pat Jago, Vice-Chair, Caradon Tenants Forum, oral evidence)

"Last year, there was a recommendation that said that 'we're doing a door programme, it's going to take 20 years'. 'That's no good,' I said, 'I could be dead by the time I get a new front door'." (Victor Kemp, Tenant and Member of East Devon Housing Review Board, oral evidence)

We heard from a significant number of areas that simply do not have sufficient resources. Some because tenants have rejected the blackmail to take one of the government's 'three options' of transfer, PFI and ALMO:

"Camden Council says that without investment, 70% of the Council's 24,000 tenanted properties would not meet the decent homes standard by 2010. But despite all attempts to blackmail us into privatisation, tenants in Camden have rejected stock transfer, ALMO and PFI at ballot boxes as a way of financing improvements. The Council says this leaves a £242m gap once current and projected capital resources are taken into account." (Meric Apak, Chair Camden Federation of Tenants and Residents Associations, oral evidence)

"Stroud District Council… are left with a financial shortfall that means they cannot meet the decent homes standard for all their tenants… Inadequate heating is another issue regularly raised by tenants, including in the council's 29 sheltered units. Storage heaters are often not adequate for tenants' needs – but a large percentage of tenants do not have mains gas so it is difficult to improve heating without a very large financial investment." (Stroud DC Labour Group, written evidence)

And we also heard evidence from some whose attempts to access extra investment through the ALMO route have so far met with frustration. Hillingdon has seen the company contracted to carry out decency works go bust; while North East Derbyshire and Stevenage are among those still waiting for successful inspections to release money to support borrowing; they probably won't complete their programme until 2012 or 2013 at the earliest. ➜

What matters is that there are not enough resources, calculated by a government formula, to give homes the investment they need – calculated by government criteria

➜ The evidence is overwhelming that resources currently do not meet the investment need created by years of disinvestment and robbery.

The political and financial case is clear: government should stop robbing council housing for the future and also reinvest some of what it has stolen in the past. As paper 3 (*The money's there: debt write-off, gap funding and receipts*) shows, more than enough has been stolen over the years to fill the investment gap.

2.7 Calculating need: stock transfer standards and the level playing field

There is a strong argument that tenants should have a 'level playing field' with regard to standards and services whoever they choose for their landlord. We have been making this case for some years, along with the Defend Council Housing campaign, trade unions and three consecutive votes at Labour conferences:

"Conference re-affirms the decisions of the 2004 and 2005 party conferences and our commitment to a 'level playing field'. This should include…equal treatment on debt write off and gap funding available to councils who transfer their homes to give tenants real choice and provide a long term future for council housing." (Motion passed at 2006 Labour conference)

Government has finally recognised that discrimination against tenants who choose to keep the council as their landlord is wrong. As its terms of reference for the Review of Housing Finance state:

"Standards and services at similar costs should be provided to all tenants regardless of which landlord (Local Authority or Housing Association) owns the property." (*The Review of Council Housing Finance: Terms of Reference*, CLG)

This is also one of the stated policy aims of the government in its ongoing changes to the regulation of housing associations and councils. (Professor Cave, *Every Tenant Matters: A Review of Social Housing Regulation*, June 2007).

Councils and tenants want a level playing field:

"We don't want special treatment, but the same opportunities as Housing Association. We want to provide quality housing where people chose to live. We do not see why our tenants should be penalised for choosing to remain with the council." (Cllr Rosemary Bowler, Chair of Scrutiny Committee, Bolsover council, written evidence)

The political and financial case is clear: government should stop robbing council housing and reinvest some of what it has stolen in the past

However, given present resources, there is a huge difference between what councils can afford to spend, and what they calculate would be spent using stock transfer.

The Decent Homes Standard and Stock Condition Survey are open to wide interpretation, and councils keen on transfer have been known to present figures designed to mislead tenants and councillors about the need to spend, as we showed in our first report. However, even where councils act in good faith the disparity between the standards is huge.

In options appraisals the lowest standard offered to tenants is generally the minimum amount required to meet the Decent Homes Standard and to carry out those items from the stock condition survey which council officers consider to be essential. The highest standard typically includes all or most of the items recommended by the stock condition survey, along with other works, such as environmental or security works not included in the Decent Homes Standard, which are tenant priorities.

"Decency funds could only be spent on the homes themselves and there is a pressing need for spending on the environment of council estates – boundaries, paths, parking. Leeds ALMOs did not have sufficient resources to adopt a 'decency plus' standard, of the sort seen in stock transfer organisations." (Linda McNeil, Leeds Tenants Federation, oral evidence)

Many areas offered their tenants a higher standard if they chose stock transfer. Nevertheless huge numbers chose to stay with the council. Tenants and council delegations highlighted how, since 2000, tenants in different local authorities had overwhelmingly voted to remain under direct council management in stock options appraisals with some areas having had several ballots to the same effect.

"We in Reading completed our stock options appraisal in 2006 and decided we wanted to stay with the council, it was absolutely unanimous." (Maggie Barnes, Chair, Reading Federation TRAs, oral evidence)

"In the last 12 years we have had two ballots in Kingston to transfer our housing to an RSL…in the last ballot, on a 61% turnover, 63% voted against the transfer" (Cllr Steve Mama, Kingston council, oral evidence)

The failure by government to provide resources to meet the investment backlog where tenants chose to stay with the council, as well ➜

➜ as the projected lack of resources for the future, poses the real threat that councils will be forced towards stock transfer or wholesale clearance of stock. For example, Harrow council told us that the cost of repairing system-built stock goes way beyond their resources, so they're forced to work with Registered Social Landlords in partial transfer. Many delegations reported that their councils had already demolished a large amount of council housing to cut the decency bill and raise capital receipts for investment. We heard much fear among the delegations that councils will resort to pushing stock transfer in the future.

For example, Sheffield Council expect a capital investment gap of £900 m and an 'unsustainable' revenue position by 2012 (presentation to LGA conference, February 2009).

As the Chartered Insitute of Housing points out, this is totally unacceptable:

"CIH is calling for:…a system that will not put local authorities in a position where they cannot retain ownership of their housing stock – CIH would oppose proposals that would deliver such a system." (*CLG-HMT Review Of Council Housing Finance: CIH Submission To The Review*, September 2008)

Despite the evidence presented by tenants and councils about the investment gap and the huge problems experienced, tenant-led delegations were unanimous: tenants want to stay with the council and want a level playing field to make this a sustainable reality.

The money is there to provide this: if funds can be made available to bring homes up to standard through the government's 'three options' of stock transfer, ALMOs and PFI. This should be made available to invest directly in council housing. In paper 3 we give details of the huge sums poured into subsidising the 'three options' which could be made available for council housing.

2.8 Conclusion and Recommendations

There are three distinct problems the review needs to solve.

First, the backlog – after decades of disinvestment homes need catch-up as well as ongoing works. This means that some authorities are left unable to reach the Decent Homes Standard by the 2010 deadline, even if it is extended; while others are having to cut back on essential works. This problem can only be solved by immediate *gap funding*.

If government is prepared to pour billions into funding privatisation through stock transfer then there is no financial reason why they cannot redirect those resources into council housing

Second, allowances are underfunded. Estimates of need from the Building Research Establishment, from our own inquiry, from options appraisals, and from the self-financing pilot all demonstrate that a sizeable uplift of both M&M and MRA allowances is required, to give council housing the 'long-term, sustainable future' which is the declared aim of the review.

Third, resources to meet a sustainable standard of council housing are not equal to the resources on offer for stock transfer. If government is prepared to pour billions into funding privatisation through stock transfer then there is no financial reason why they cannot redirect those resources into council housing.

As we show (see paper 3, *The money's there: debt write-off, gap funding and receipts*), writing off historic debt and ending the robbery from tenants rents would free up £1.7 billion a year. Government should also reinvest some of what has been stolen in the past; more than enough money has been stolen from council housing over the years to make a good case for gap funding to meet the immediate backlog.

There is also the issue of creating long-term stability. The present system is criticised not only because allowances are under-funded but also because allowances change every year and it is impossible for local authorities to plan their investment programmes. This has led some to call for the abolition of standards and formulae altogether.

We discuss these issues further in paper 5 (*Housing finance: national HRA or self-financing?*)

One solution is to keep a formula, set by an independent assessment of need such as that calculated by the BRE, and to allow local authorities' own assessment of need to have a place within the formula. For example, instead of using reported crime figures, councils could estimate what they will need to spend on stock due to crime based on actual costs in previous years and an estimate of work which is needed but which had to be turned down due to lack of resources. Bench-marking between similar authorities could be used to ensure that nobody abused the system, and the final figure could be a negotiated settlement.

To give long-term stability on allowances, a base allowance could be agreed on a 30-year settlement, with the extra for those things which change – deprivation, crime, etc – negotiated between councils and government. ➜

2. Fully funding allowances: calculating 'level of need'

➜ In any case, with regard to the investment backlog, actual condition must be taken into account. A methodology developed by government already exists for calculating actual need to spend to bring stock up to standard – the stock condition survey. This should be used to work out how much gap funding is needed, and this should be provided to councils retaining the ownership and management of their stock on a level playing field – the 'fourth option'.

Recommendations

1. Gap funding. Where tenants have chosen to remain under the ownership and management of the council and the authority is unable to meet the 'Decent Homes' standard, the government should provide sufficient gap funding to enable them to do so.
2. Raise allowances. Management and maintenance allowance and the major repairs allowance to be set at a level that meets need as determined by independent research and by negotiated agreement to ensure that local authorities are able to maintain these improvements in future years.
3. Long-term stability. Ensure that any formula for allowances is based on a 30-year settlement for long-term stability, while keeping economic risks with government, not councils.