UNISON
Open College

BLOCK HFFS.108

PERSPECTIVES ON CURRENT ISSUES

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Contents

Acknowledgements

UNISON would like to offer its thanks to the following magazines, for their kind permission to reproduce the articles contained in this Block.

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Inside Housing
Housing Today, and
Housing

1. Introduction

You have already learned a great deal about current issues in housing finance from your study of the earlier Blocks in this Unit. You will be aware that there are concerns that our system of housing finance is inadequate. There are still very many households living in poor conditions, or without homes at all. Before you begin your study of this Block, therefore, we want you to review what you have already learned: what do you think are the main problems in housing finance at the moment?

Activity - Current issues

From each Block in this Unit, try to identify at least TWO problems which arise from the current financial arrangements. (Ignore Block HFFS.102, which deals only with concepts and financial terms).

Block HFFS.101 The Context Of Housing Finance

Block HFFS.103 Local Authority Finance

Block HFFS.104 RSL Finance

Block HFFS.105 Mortgage Finance For Owner Occupiers

Block HFFS.106 Finance For Private Rented Housing

Block HFFS.107 Help With Housing Costs

2. Response to activity - Current issues

We identified the following major issues. However, your list may be somewhat different because it is possible to identify a wide range of different issues, some possibly with a narrower focus, but nevertheless the subject of debate.

Block HFFS.101: The Context of Housing Finance

1. Restrictions on public sector borrowing and expenditure reduced public spending on housing significantly since the early 1980s.
2. The private housing market is volatile, and prices can go down as well as up, usually consistent with recession and growth in the economy as a whole.

Block HFFS.103: Local Authority Finance

1. Restrictions on credit approvals significantly limited local authorities' ability to invest in housing during the 1980s and 1990s.
2. The resource accounting regime is intended to help local authorities invest more in their housing and manage it in a more business-like way. However, it also allows government to 'harvest' rent surpluses to use nationally.

Block HFFS.104: RSL Finance

1. As the proportion of SHG available decreases or increases, so the proportion of private finance needed increases or decreases.
2. The new 'partnering' arrangements will limit the ability of small and medium sized RSLs to develop new housing.

Block HFFS.105: Mortgage Finance for Owner Occupiers

1. Rising prices in the late 1980s/early 1990s, coupled with recession, resulted in growing problems of arrears and repossessions. The lessons learnt then still influence the policy of lenders and insurers.
2. Affordability of owner occupation is a problem for low income groups. The government is particularly concerned about the difficulties key workers may face in moving into owner occupation in high price areas.

Block HFFS.106: Finance for Private Rented Housing

1. No special financial arrangements exist for private landlords
2. The private rented sector has steadily declined over the 20th century. This decline has now halted, and slightly reversed, due in part to the popularity of buy to let as an investment.

Block HFFS.107: Help with Housing Costs

1. The cost of Housing Benefit has grown very fast and is a cause of concern for the government.
2. Help is only available with the interest elements of mortgage repayments for people on Income Support or Income-based Job Seekers allowance. This creates problems in the long term, especially if they have mortgage-related insurances.
3. Expenditure on private sector improvement grants has fallen, despite the fact that there is increasing disrepair in the owner occupied sector.
4. Rent controls may cause landlords to sell or to harass their tenants to leave.

Clearly, then, there are many current issues in housing finance, and few offer easy solutions.

3. Articles from Journals

To encourage you to reflect further on some of these issues, this Block has collected together a number of articles which examine one or more financial problems. After reading each article, you will answer some questions, to test your understanding of the main points raised.

Hence, the structure of this Block is different to the earlier ones.

The answers to the questions on each article follow immediately; they are not to be found at the end of the Block. This is because these articles are not in the style of your earlier learning materials. They require more thought from you, and you will need to review your answers while each article is fresh in your mind. So this entire process - reading, thought, answering questions, then reviewing your answers - should take place as an entity. Don’t move on to the next article until you are confident about the last.

It is intended that, in this way, you will acquire a deeper understanding of some current issues in housing finance. You will have the opportunity to “draw together” the earlier Blocks and to begin to view the housing finance system as a whole. You will also be developing a critical approach to articles dealing with housing finance issues, and gain confidence in the knowledge you have already acquired.

Many of these articles preview developments of policy which have since taken place: rent restructuring and RSL partnering, for instance. You should, therefore, gain an additional perspective on the thinking at the time these policies were introduced, which will extend your understanding of the current housing finance system.

Article 1: Huge benefit to the capital

Introduction to Article 1

We begin this section with an article from *Housing Today*, 6 April 2000, which looks at the impact of the Capital Receipts Initiative. The writer is a Policy and Research Officer for the London Housing Unit, and therefore concentrates on what has happened in the London area. The questions below are intended to help you to focus on the key points, so bear them in mind as you read the article.

Questions on Article 1

1. What extra spending power did the CRI provide for London boroughs?
2. What was the ratio of investment between existing stock and new stock?
3. Does the author feel the money has been well spent?
4. What is the common feature of the diverse schemes described?

Huge benefit to the capital

THE CAPITAL RECEIPTS INITIATIVE HAS UNLOCKED MILLIONS OF POUNDS FOR HOUSING. BUT WHERE HAS THE MONEY GONE – AND HAS IT MADE A DIFFERENCE? **CHLOE FLETCHER** TAKES A LOOK

Horne Park estate in Greenwich: a landscaped community area will replace these garages. See case study overleaf

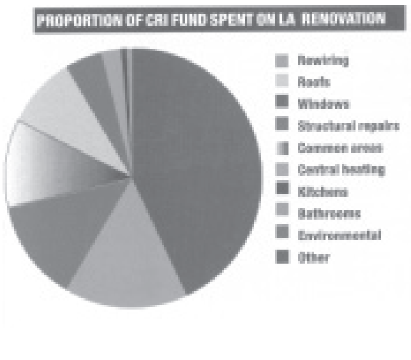
Under the Capital Receipts Initiative – introduced by the new government in 1997 – London boroughs committed themselves to spending £156.5m on housing in 1998/99. New research by the London Housing Unit shows that they met this target fully and effectively.

This represents an additional 28 per cent of capital resources over and above what would have been made available otherwise and has made a great difference to social housing in London.

Some £126m – or 80 per cent – has been used directly to improve local authority stock, benefiting more than 65,000 properties London-wide – one in nine of all council properties in London. Around £31m or 20 per cent of this funding went towards the provision of new social housing in the form of local authority grants to housing associations

Our findings are that the local authorities have used this money well, targeting it on the backlog of repairs. Energy efficiency has been the focus of many schemes, reducing fuel poverty and improving tenants' quality of life. Work on the stock focused on renewing windows and roofs, installing new central heating and much needed structural repairs. The majority was channelled into window replacement programmes with central heating installations being the next biggest single priority.

Local authorities used this opportunity to consult residents on their specific choices for improvements and a number of resident-focused projects were initiated across the capital. The London borough of Hammersmith and Fulham allocated a set amount for environmental schemes to estate grounds and encouraged resident associations to bid for the money. These schemes were facilitated by a partnership agreement with Groundwork, an environmental organisation that assisted resident groups.



The London borough of Hounslow has worked with tenants in their regeneration projects to improve security and provide extra play facilities for children. "The best thing is that Hounslow has consulted with tenants about how improvements are to be made. It's part of the ongoing partnership between tenants and the council," explains Alf Chandler, chair of the Hounslow Federation of Tenants' and Residents' Associations.

On the Benson Close estate, land has been reclaimed and turned into a children's playground. Children have the opportunity to play and parents can look after them easily. "It's a family asset," explains Chandler.

The projects undertaken by the councils varied greatly. Havering converted a number of bedsits into one-bedroom flats for elderly residents. Each flat has its own kitchen and shower facilities and 20 residents benefit from the increased living space and more suitable facilities. One of Hounslow's projects involved improvements to the tower blocks on the Heston Farm Estate. New concierge offices were built to each block, lifts refurbished, secure lobbies created and a new door entry system added. The Fenton House Community Hall was extended, tenants' stores built and a new caretaker's office added. Residents benefited from improvements to the grounds too with the planting of beds, additional lighting and external decoration.

Although CRI money was linked to regeneration in some boroughs it also provided a valuable source of funding for those properties not included in some of the higher profile regeneration schemes, helping to ensure that the basic investment needs of the rest of the stock were not neglected.

In the London borough of Greenwich, 90 per cent of the CRI money was targeted at repairs and renovation schemes which did not fall under any regeneration project in the borough. Residents benefited from the general improvement in their properties which has prevented further decline in many areas.

More than 1,000 homes benefited from the investment in the installation of central heating. The priority was to provide affordable warmth to properties with particularly bad NHER (National Home Energy Rating) and improve their energy efficiency. Part of this scheme was specifically targeted at improving the quality of life and health of elderly and disabled tenants in the borough.

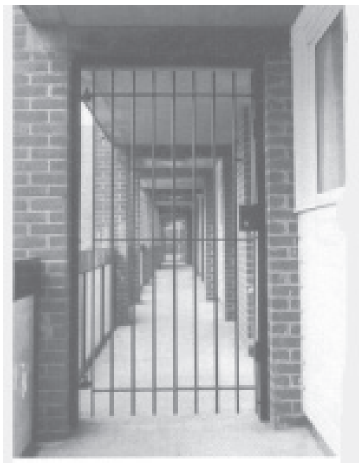
Other than heating and insulation work, the quality of neighbourhoods was improved through a mixture of repairs to common parts and the provision of environmental works.

Ten per cent of the CRI funding in Greenwich contributed to existing regeneration works, concentrating on the provision and improvement of communal facilities and security on estates as they were highlighted as the main areas of concern by tenants in a recent tenant satisfaction survey. Residents instigated many of the projects after a letter asking for responses regarding the initiative was sent to all tenant associations in the borough.

Capital Receipts funding allocated last financial year has made a huge impact on the lives of some London tenants and a significant impact on many more. Their properties have benefited from some much-needed financial investment, improving their energy efficiency and providing a higher quality of life. Whole estates have also been provided with the resources to improve communal facilities and environmental features. This has involved residents in the improvement of their surroundings and given them an opportunity to work together as a community.

Chloe Fletcher is policy and research officer at the London Housing Unit

New security doors are among the improvements on the estate



PICTURES: PAUL SANDERS

Scheme to enhance residents' lives

The Horn Park Estate is on the borders of Lewisham and Greenwich and has very little in the way of community facilities. Tenants felt that this was undermining the sense of community on the estate and restricting the groups and activities that could be provided for the benefit of all residents.

A local group involving residents and ward councillors began to draw up proposals for a multi-use community facility. The existing church hall on the estate was identified as suitable to adapt and a management committee was set up to run the project.

To ensure the work of the group was sustained, Greenwich council injected CRI money into the project as part of their enabling strategy. This paid for consultants to coordinate efforts and ensure that good ideas were put into practice. Residents were involved in developing the brief, setting out terms of reference and appointing the consultants.

A number of small organisations required support and needed office space on an hourly basis. There were also community activities such as dance and theatre groups that did not have suitable premises. There was a need for a purpose-built gym and keep fit classes along with a cafeteria, providing a place for people to meet and chat.

Once the project is completed, residents will benefit from a community centre that works for them, providing wide-ranging activities and information seven days a week. Verina Clifford, manager of the community centre, said: "This scheme will really enhance the lives of residents in the area. There are only two direct bus routes to Catford or Eltham serving the estate and this centre will bring the services to the residents instead of the residents being forced to make long journeys or go without."

The consultants have drawn up a business plan and fundraising strategy and architects have developed designs for the hall. The group is waiting on further funding from round 5 of the SRB to continue the project.

Sue Brown, principal community recreation manager at Greenwich council, said that one of the big achievements of the steering group had been its multi-agency approach. One partner is the health trust and a major theme of the centre will be to encourage healthy living. There are plans for a surgery within the building so groups can use it to deliver services to the community.

It is proposed that a community nurse will hold surgeries and mother and baby clinics and the centre will also provide a venue for councillor surgeries and law centre advice work.

Two play areas have already been completed with funding from the London Marathon. CCTV cameras have been installed to help ensure the safety of children and equipment.

Although the initial sum allocated from the Capital Receipts Initiative was relatively small, it has successfully kick-started community action in the area. The funding enabled the community to come together to focus on their needs and address them successfully.

Answers to Article 1

1. The CRI raised capital resources for the London area by 28%, which amounted to £156.5m in 1998/9.
2. The ratio of investment in existing:new stock was 80:20.
3. Yes - she describes spending targets as being met fully, the resources as having made a great difference, and a backlog of repairs having been dealt with.
4. A common theme is consultation with residents - on specific choices for improvements, on bidding for funds, and creating partnerships with residents.

Article 2: Rich vein

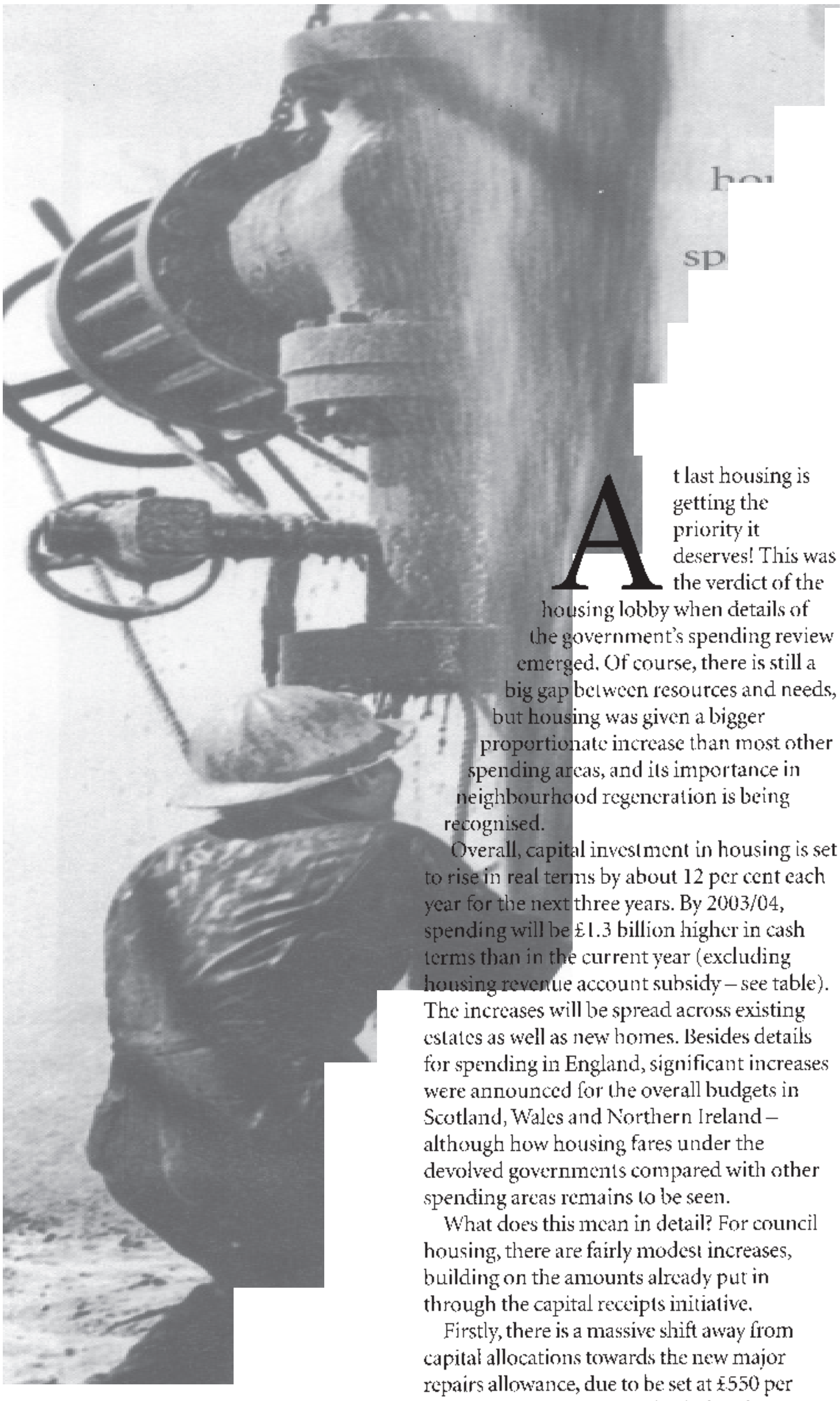
Introduction to Article 2

This second article, from *Inside Housing*, 4 August 2000, reviews the Comprehensive Spending Review 2000 and examines housing's fate.

It considers the housing profession's reaction and looks at what might happen as a result of the allocations announced for the three year period 2001/2 to 2003/4.

Questions on Article 2

1. How did housing fare in the CSR relative to other spending areas?
2. What was the impact for council housing?
3. What effect was anticipated in the RSL sector?
4. Which sector do the authors suggest might be least likely to benefit?



At last housing is getting the priority it deserves! This was the verdict of the housing lobby when details of the government's spending review emerged. Of course, there is still a big gap between resources and needs, but housing was given a bigger proportionate increase than most other spending areas, and its importance in neighbourhood regeneration is being recognised.

Overall, capital investment in housing is set to rise in real terms by about 12 per cent each year for the next three years. By 2003/04, spending will be £1.3 billion higher in cash terms than in the current year (excluding housing revenue account subsidy – see table). The increases will be spread across existing estates as well as new homes. Besides details for spending in England, significant increases were announced for the overall budgets in Scotland, Wales and Northern Ireland – although how housing fares under the devolved governments compared with other spending areas remains to be seen.

What does this mean in detail? For council housing, there are fairly modest increases, building on the amounts already put in through the capital receipts initiative.

Firstly, there is a massive shift away from capital allocations towards the new major repairs allowance, due to be set at £550 per home. This should ensure both that the new resource accounting arrangements work properly, and that spending on council housing is protected from the vagaries of the new 'single pot' for local authority capital spending.

Secondly, private finance schemes to renovate council housing get modest backing. Eight pathfinder schemes are due to start later this year, and the spending plans allow for more to come on stream if these are successful. Thirdly, the new option of arm's length companies to manage council housing is set to make a start in 2002/03, with £160 million set aside that year and £300 million in the following year.

The government has committed itself to ensuring 'all social housing is of a decent standard by 2010'. Can it achieve the target? Crucial to tackling the £19 billion repairs and improvement backlog in council housing is the assumption that 200,000 homes a year will be transferred out of the sector.

So out of the slightly more than 3 million houses still owned by councils, by 2010 this will be down by two thirds. Effectively the government is looking to private lenders financing the repairs and improvements to this part of the stock, leaving public funds to deal with the remaining third. Calculations by Graham Moody Associates for the Institute for Public Policy Research inquiry into social housing suggest the spending allocations will be just enough to achieve the target, providing stock transfer takes place on the expected scale.

Given the firm promises in the green paper, the commitments to spending on council housing were not surprising. Less anticipated were the increases in the Housing Corporation's programme. Overall its cash budget rises more than 60 per cent across the three years, while its approved development programme rises by nearly 80 per cent.

How this will affect output of new homes is still unclear. New house building in high demand areas will compete with regeneration needs in inner cities and in the north. High land prices are putting pressure on development costs. And the restriction on RSL rents to an overall limit of inflation only implies higher grant rates. All of these will eat into the increases in the ADP.

But new affordable housing will be boosted from two further sources. The starter homes initiative has been allocated £250 million in total. This is aimed at helping key workers in areas of high housing demand.

Rich Vein

The make-up of the programme is not yet known, but it is likely to benefit somewhat better off households than would be helped by the traditional corporation programme. One calculation is that it might help 12,500 such households over the three years.

The second source of funding is social housing grant provided by councils, which is now bigger than the corporation's ADP in some regions. This is not budgeted for in the spending review, but is likely to increase as more councils transfer their stock. However, it might also be affected by the local authority 'single pot', which could lead to housing receipts being diverted for other purposes.

Overall, the government is thought to be aiming to get around 50,000 affordable houses produced by the third year of the spending review, as against around 30,000 now. But this figure must be regarded as speculative until we have a better idea of the make-up of the various programmes and whether stock transfer goes ahead at the expected pace.

The effect of the spending review on programmes to tackle poor conditions in the private sector is even more difficult to assess. Credit approvals for councils, after the deduction of the major repairs allowances, will increase from £705 million in 2001/02 to £842 million in 2003/04. Apart from the modest separate provision for disabled facilities grants (£75 million now, rising to £89 million in 2003/04), renovation programmes in the private sector will have to compete for this cash, now that funding earmarked for renewal programmes has disappeared.

But this is against the background of the 'single pot' for all local authority capital spending, and it is more likely than not that renovation grants will lose out.

This happened in Scotland when a similar move affected funds for renovation grants. More than ever, tackling poor conditions in the private sector needs a government target of the kind set for dealing with poor quality social housing.

Given that the government is at last recognising the links between poor housing and overall deprivation, it surely cannot ignore the fact that almost half the poor are owner occupiers, or that two thirds of all poor housing occupied by low income households is in the private sector.

Apart from modest amounts for new initiatives such as neighbourhood wardens, and the line setting out the amount for councils' HRA subsidy (declining as the number of council homes falls), that completes the picture of the DETR's housing budget.

But also of interest is the DSS budget for housing benefit. This is to be contained, not increased, given the government's commitment to squeezing out fraud and other devices for reducing the claims on it. The housing benefit budget is falling because of the decline in numbers of private landlords interested in housing benefit recipients. The government could have taken advantage of this improvement in the budgetary position to embark on a radical programme of incremental reform to simplify the scheme, to improve work incentives and make a raft of other improvements, along the lines recommended by the Commons social security committee.

But as we know from the green paper, such reforms have been put on the back burner. It is to housing benefit reform, and policy for the private sector, that the housing lobby will have to shift its attention now that other aspects of public expenditure on housing are firmly heading in the right direction.

John Perry is policy director at the Chartered Institute of Housing and Steve Wilcox is a professor at York University's centre for housing policy

This article is based on the forthcoming *Housing Finance Review 2000/01*, is available in early September, CIH, tel: 024 7685 1764, £26, plus £2.50 p+p

Spending review (£ millions)	Plans agreed prior to review 2001/02	◄ Total spending plans 2001/02	2002/03	2003/04	► totals
Local authority capital	2,305	2,305	2,465	2,545	7,316
of which ... single capital pot for housing	*2,305*	*705*	*793*	*842*	*2,341*
arm's length management companies	*0*	*0*	*160*	*300*	*460*
major repairs allowance	*0*	*1,600*	*1,512*	*1,403*	*4,515*
Housing Corporation	890	995	1,158	1,460	3,614
of which ... approved development programme (capital)	**691**	**789**	**940**	**1,236**	**2,966**
... including rough sleepers initiative capital of	*24*	*24*	*24*	*24*	*71*
Current expenditure	**199**	**206**	**218**	**224**	**648**
... including social housing management grant of	*145*	*145*	*157*	*162*	*463*
... including rough sleepers initiative current expenditure of	*18*	*18*	*18*	*18*	*54*
... including innovation and good practice grant of	*6*	*7*	*9*	*10*	*27*
Starter home initiative	0	50	100	100	250
Large scale voluntary transfer pool	86	86	196	211	492
Supporting people	0	20	55	78	153
Safer communities supported housing fund	0	22	45	70	137
Disabled facilities grant	75	87	88	89	263
Home improvement agencies	7	9	9	9	26
Rough sleepers unit and homelessness	30	30	30	30	91
Lettings pilot scheme	0	6	4	1	11
Tenant participation grant	6	6	6	6	19
Neighbourhood wardens	0	2	3	5	10
Other housing expenditure	152	64	42	43	149
Total housing (departmental expenditure limit)	3,552	3,682	4,201	4,647	12,530
Private finance initiative for housing	160	160	300	300	760
Housing revenue account subsidy	3,096	3,106	3,025	2,958	9,089

Answers to Article 2

1. Housing had a bigger proportionate increase than most other spending areas, with a 12% real terms rise in capital investment each year for the three years covered by the review.
2. Council housing in England saw fairly modest increases beyond what had already been released through the Capital Receipts Initiative. Significant increases in the overall budgets for Wales, Scotland and Northern Ireland have yet to be divided between service areas. Renovation of council housing is the key target of all additional funding for this sector.
3. There was expected to be an increase in the numbers of new affordable homes - although quite how big this increase will be was unclear.
4. The authors suggest that the CSR made least positive effect on the private sector – both in tackling poor conditions in the private rented sector and in dealing with disrepair in the owner occupied sector.

Article 3: Weighing up the options

Introduction to Article 3

You learned in Block HFFS.104 of the way the Housing Corporation distributes its resources between RSLs in England. This article, from *Housing Today*, 8 March 2001, looks at the changes that had recently taken place and previews further changes scheduled to take place in the future.

Questions on Article 3

1. What changes had already taken place?
2. What further measures were proposed for the future?
3. What was a key element to the Corporation's new approach to investment?
4. What was the stated purpose of the changes?

Weighing up the options

NEIL HADDEN OUTLINES THE HOUSING CORPORATION'S NEW INVESTMENT STRUCTURE

Over the past 18 months, the Housing Corporation has been changing the way it carries out its investment function. This to ensure it is relevant to meeting the housing needs of today and tomorrow and that it contributes effectively to the government's regeneration agenda.

Two fundamental changes have already taken place. First, in 1999, we began the move away from the formulaic distribution of resources through the housing needs index, to a more strategic approach. Second, we started to use the internet in our investment processing. Our change process is evolutionary and this year we plan to take developments a stage further.

During 2001/02 we will be taking four further measures to improve the allocation process.

Developing the joint commissioning approach

Joint commissioning is intended to strengthen processes for collaborative working with local authorities and other stakeholders.

Following the success of the electronic bid round we will be opening up our systems further

It aims to improve strategic planning and co-ordination of investment decisions as well as overall scheme value.

We will be taking this approach one step further by using it to commission programmes of schemes which meet specific key regional investment priorities.

We will be publishing a good practice guide this month, in order to share the pool of experience and assist local authorities which want to start this approach.

Introducing a two-stage bidding process

Last year a Hacas report, *Measuring added value*, made it clear that the corporation's early involvement in developing projects was helpful. Our response is to introduce the option of holding a two-stage bidding process for the allocation of resources.

The aim is to reduce abortive work, improve the quality of investment decisions and give greater certainty and security to our partners to invest time and resources in working up often complex proposals involving a wide range of agencies.

We would aim to introduce the two-stage bidding process over a period of time. The annual bidding round would be retained for small, one-off schemes.

Allowing submission of bids throughout the year

In order to make the two-stage bidding process most effective and to enable the corporation to discuss opportunities as and when they arise, we will be introducing a facility to submit bids throughout the year. As an alternative, they can be tabled at a number of stages throughout the year. This approach will also avoid delays due to artificial bid deadlines.

Developing a three-year allocation pool

We will build on our ability to make pre-allocations by introducing the concept of a three-year allocation pool. The pool will consist of schemes which meet regional and local priorities and which will eventually be included in the annual Approved Development Programme.

Schemes in this allocation pool will be at various stages in development but they will have an agreed development timetable.

The allocation pool will replace the concept of firm and provisional pre-allocations, and we propose that there will be a commitment that any scheme included in the pool would receive an allocation subject to the above criteria.

A key element of the corporation's new approach to investment is to use technology to accelerate, simplify and open up our investment process.

We made a start in the autumn, by successfully using internet technology to enable RSLs to bid for funding electronically.

Since then, 547 RSLs have made 8,500 bids worth £2.9 billion, saving a significant amount of time usually spent transferring from paper to computer and reducing input error.

Following the success of the electronic bid round we will be opening up our investment systems further to enable firstly RSLs to view data on their programmes and projects. This facility went live on 19 February. Secondly, RSLs will submit their investment forms, grant confirmation and grant claims to us via the internet.

Projects funded through local authority social housing grant will also be processed in this way. The planned date to go live is 17 April. We have written to all RSLs and local authorities setting out the steps they need to take.

A document setting out this new approach has been published.

Comments should be sent by 30 May to: Fiona Cruickshank, assistant director of investment, Housing Corporation, 149 Tottenham Court Road, London W1P 0BN. Internet processing enquiries: Doreen Wright on 020 7393 2191 or internetproject@housingcorp.gsx.gov.uk

Seminars on 'The new approach to investment' will be held by the National Housing Federation in conjunction with the Housing Corporation on 9 March in Leeds, 12 March in London and 13 March in Birmingham.

Tel: Eurolynx, 01737 789780.

Neil Hadden is director of investment at the Housing Corporation.

Answers to Article 3

1. In 1999, the Corporation moved away from formulaic distribution of resources and adopted a more strategic approach. They also began to use the Internet in their investment processing.
2. Four further measures were proposed for the future:
   - Developing a joint commissioning approach with local authorities and other stakeholders.
   - Introducing a 2-stage bidding process.
   - Moving away from a once a year bidding date to a year round process.
   - Developing a 3-year allocation pool.
3. The use of technology - the aim was to simplify and speed up the process.
4. The stated aim is to ensure that the programme was relevant to current housing needs and is contributing effectively to the government's regeneration agenda.

Article 4: Risky business

Introduction to Article 4

In this article from *Inside Housing*, 9 June 2000, lenders views on 'key worker' accommodation are explored.

Questions on Article 4.

1. What is the main reason for lenders' reservations about proposals for housing associations to develop housing for key workers?
2. What specific problems do they foresee?
3. Do they have an alternative solution to the problem of accommodation for key workers?
4. Do you think the author is sympathetic to the lenders' perspective?

Burning question: If the market is overheating, is it the right time to encourage key workers to buy?

Risky business

The government is looking for social landlords to help house key workers, but will lenders stump up the cash? **Chris Baker** investigates

Housing associations may be overjoyed at the government's willingness to allow them to move into key worker accommodation, but the people who hold the purse strings are not so sure.

The demand might be there, but lenders – a cautious bunch – see risk at every turn. There is an alternative in use already, they say, and if it ain't broke why fix it?

The green paper contains proposals to help key workers – usually taken to mean fire fighters, nurses, police officers and teachers, who are more of a vote winner than street cleaners – to buy their own homes. Key worker accommodation will henceforth be viewed by the Housing Corporation as 'core business activity' for associations.

Landlords, getting a whiff of extra cash, may be more than willing to help the government meet its targets on housing nurses and the like. But that will need the help of the financial institutions, and they scent a rat.

NatWest head of housing finance Clive Barnett strikes a note of caution. 'If the deals are right then the lender's commitment will be there,' he says. 'But I have to say that the key worker, in my opinion, adds risk to what I would call core social housing activity.'

Associations will probably want to borrow higher percentages, if not 100 per cent, Mr Barnett adds. That is riskier, and developments will often have restrictive covenants and bars on alternate use. So if a scheme falters it will be extremely bad news all round.

'If it goes wrong, we will have something that is heavily geared and with no get-out as there are restrictions on alternative use,' he warns. But it's not just a problem for the scheme – the entire association will be affected.

'It doesn't matter if the project's been ring-fenced or not – one cannot dissociate oneself from a failure.'

There's risk hiding behind every tree down this avenue of diversification, lenders will be watching very carefully.

'The people who want people to do key worker accommodation will invite bids,' Mr Barnett explains. 'So when people are bidding against each other the winner is often the one that is likely to take the most risk.'

Another risky issue for housing key workers is the very essence of their plight – they are people in jobs deemed vital to the community who cannot afford to live in that community.

'They are essentially marginal home owners,' Nationwide structured finance controller Mark Hedges says. 'If they cannot afford to buy, that is because the housing market is overheating.

'It strikes me that the green paper proposal for helping them will only further overheat the market, and the market will inevitably fall again because it runs in cycles.

'If the market is overheating, is it the right time to encourage people to buy?'

Mr Hedges is not keen on associations providing key worker accommodation either. 'Who will pay if there's a down side – won't it be the tenants? Someone will always have to make up the shortfall.'

Associations already have enough on their plates with the controversial inflation-only rent cap which will constrain costs, he adds.

Abbey National Treasury Services senior lending manager Richard Hughes says of key worker accommodation: 'As in most of life, everything in moderation'. Each scheme should be scrutinised on its individual merits, he says, but the green paper proposals were 'too vague'.

'What is a key worker?' he asks. 'Is it a nurse or a doctor? You can argue a dustbin man is a key worker and the people who work behind the counters in Woolworths are important to the local community.'

Mr Hughes highlights a further problem – not everyone wants to live in a block not dissimilar to a students' hall of residence. 'How can you expect key workers with families to live in our type of traditional nurses' accommodation? They are going to want a house or a nice flat.'

Both he and Mr Hedges point to a solution that already exists – shared ownership.

'The shared ownership model works quite well,' Mr Hughes explains. 'Do-it-yourself shared ownership – the principle works and it's probably quite cheap. There is already a market and people understand it.'

DIYSO would prove more attractive to key workers who don't want to live in a traditional nurses' home, he adds.

'We would have thought the better way forward was shared ownership,' Mr Hedges says. 'There are already tried and tested ways of doing this and shared ownership is one of them.

'It doesn't necessarily work in the north east, but I don't think key workers in the north east have as many problems as those in London. That's where the problem is and shared ownership works in London.'

Answers to Article 4

1. Lenders see the key worker accommodation proposals as highly risky.
2. They suggest that there are a number of problems:
   - Associations may want to borrow a higher percentage of the development costs.
   - Assuming there are restrictions on who can be accommodated in such housing, there may come a time when there are no qualifying prospective occupiers, so a scheme may fail.
   - Enticing people into home ownership who cannot afford to buy on the open market may have an adverse effect on the housing market and, if it goes into decline, on the purchasers themselves.
   - Many keyworkers will not want to live in blocks of flats.
3. Yes - they suggest that existing shared ownership models would address the needs of keyworkers better.
4. It is not entirely clear - but ‘a cautious bunch’ suggests that he may feel they are rather too conservative.

Article 5: Enterprising solutions

Introduction to Article 5

This article from *Housing Today*, 25 May 2000, looks at another aspect of financial risk in the RSL sector. This time, the emphasis is on the issue of low demand. The author reviews a research report in which financial risk and low demand are considered. He concludes that a balance is required in the distribution of financial resources to ensure that landlords operating in areas of economic decline are adequately supported.

Questions on Article 5

1. Why does the author think that the Housing Corporation will have an important role to play?
2. Does the author consider that RSLs should avoid working in low demand areas?
3. What solutions are proposed?
4. In his final analysis, what does the author think the Housing Corporation must achieve in its distribution of the ADP?

Enterprising solutions

THE CHALLENGES OF LOW DEMAND MEAN SOME HOUSING ASSOCIATIONS ARE AT FINANCIAL RISK. THE GOVERNMENT AND THE REGULATOR MUST DO MORE TO SUPPORT THEM, SAYS **MARK LUPTON**. AND SEE OVERLEAF FOR AN IMMEDIATE RESPONSE.

Much of the debate among registered social landlords on the housing Green Paper has focused on the effect on their finances of rents being held at the Retail Price Index. Research we carried out with HACAS Consulting last year showed that generally traditional RSLs are in a strong enough financial position to live with RPI only by itself, albeit at the possible expense of some development capacity.

The real concern for RSLs should not be on the RPI-only policy, but how this, in conjunction with the Green Paper's proposals for restructuring rents across the sector, links with other risks to RSLs' financial capacity.

These wider risks are particularly of concern for those RSLs who work in areas experiencing reduced demand. The combination of continuing relatively high interest rates, with either lower rent income or extra costs caused by dealing with reduced demand are very real. Added to these, the Green Paper puts forward the possibility of a partial link between rents and capital values. Any such link, even with a 10-year time frame for introduction, is likely to mean a long-term restriction on rent increases, as these areas generally have low capital values.

To consider the likely effects of this the Chartered Institute of Housing is this week publishing a report *Sustaining success - RSLs, financial risk and low demand* in which research by HACAS Consulting considers these issues by identifying the extent of low demand, and examines in depth case study RSLs working in those areas. This shows that there are real concerns for RSLs working in these situations, and puts forward proposals in relation to financial strategies and assessing demand to help RSLs meet the challenges faced. The report also emphasises that it is vital that government and the Housing Corporation have the right mechanisms in place to support RSLs operating in areas of economic decline.

A balance needs to be struck between the needs of high demand and low demand areas

RSLs are very important to areas of economic decline. They have significant investments in these areas and their failure to manage these effectively could exacerbate decline. RSLs with a strong local base and commitment to an area are often among the best positioned local businesses to help tackle an area's problems. Yet there is a clear tension for some RSLs between their position as businesses, where the best purely commercial option may be to "disinvest", and the wider social commitments which are an essential part of their raison d'étre.

The very spread of stock between a relatively large number of RSLs in an area – 27 RSLs operating in Salford, 55 in Manchester – can also hinder a co-ordinated approach. This study has found evidence that RSLs which have a small amount of stock in a neighbourhood remote from other parts of their stock and with no local management presence have worse void levels. These RSLs need to be encouraged to transfer or sell stock to other RSLs better placed to give the housing the management attention it requires.

These factors, along with the Green Paper's aim of creating "a more diverse pattern of dynamic and competitive organisations to run social housing" and the emphasis on future transfers to "sensible sized registered social landlords", show there is a strong logic to a rationalisation of the sector.

Many people recognise this and are talking about mergers as an obvious way to achieve it. Traditionally the effective "take-over" of an ailing RSL by a stronger one, often brokered by the corporation, has been one of the main routes through which the sector has been protected from high profile financial failure. The Green Paper section on rent control explicitly states that those RSLs with "little prospect of adjusting to the new rent policy…may be best served by merging with a stronger partner".

So-called "friendly mergers" may however be less likely in the current climate. This is due to a number of factors including:

- RSLs in high demand areas are unlikely to have an incentive to invest in low demand stock
- With the tightening of controls on rent increases, RSLs will be more careful not to compromise the credit assessment of lenders.
- Multi regional RSLs may prioritise investment in their own stock and/or new investment in higher demand areas.

If the sector is to rationalise effectively and to "self-regulate" where weaknesses appear, new incentives to support mergers may well be required.

This highlights the crucial role of the corporation, with its considerable powers as funder and regulator.

The Green Paper already envisages the corporation having "an enhanced role" in implementing the new rent structure. It may now be necessary for the corporation to take a more active role in facilitating a rationalisation of the sector in areas affected by low demand, to ensure that there are effective RSLs on the ground, with the means to invest in their own stock and play a strategic role within wider renewal and neighbourhood strategies. There is a precedent for this in the way Housing for Wales effected a substantial rationalisation of the sector in Wales.

The tools to support this could include: the development of incentives for an RSL to support or take on the responsibilities of an RSL in trouble; the streamlining of procedures to allow the transfer of stock between RSLs; the provision of funding to support such transfers and a 'clearing house' to identify and facilitate RSL stock swaps. Measures could also be put in place to ensure that disinvestment by an RSL is properly managed.

We would also like to see the corporation develop new approaches which support RSLs linking to the neighbourhood management agenda and encourage RSLs to develop new alliances and structures. One option would be the ability to declare "enterprise zones". Enterprise zones could be used for a more flexible approach to grant which is outlined below. Performance standards could be relaxed to allow variations in rents and packages of services offered. They could also be used as the basis for introducing the flexibility in allocations, use of stock and shorthold tenancies proposed in the Green

Paper. This would allow RSLs to develop innovative approaches and either to take on the role of "social entrepreneur" advocated by the Social Exclusion Unit Policy Action Team 16 report or to support others locally in doing so.

The way the corporation uses its Approved Development Programme will be vital in ensuring that RSLs are fully supported. The corporation has made significant and welcome changes to the way it allocates the ADP. This should go further, including a more flexible approach to Social Housing Grant in the "enterprise zones", and this needs to be seen as part of an approach which encourages RSLs to see investment in wider terms than simply building homes. The research illustrated that some RSLs still place organisational emphasis on development rather than on overall investment and service delivery.

One approach would be to provide revenue support to RSLs experiencing low demand problems. There are, however, potential difficulties in this approach. General revenue support could simply become a prop to a struggling RSL, a blank cheque for the corporation and a disincentive to tackling underlying problems. Funding needs to be targeted on supporting RSLs to be effective in tackling the wider issues of low demand, and on the rationalisation of RSL activity.

We would therefore wish to see the following options being considered in areas of low demand:

- Releasing restrictions on using SHG to fund major repairs and improvements, and for the development of asset management strategies, including meeting the costs of demolition.
- Giving greater autonomy for RSLs to use disposal proceeds to support areas of low demand.
- Funding non-housing physical investment in these areas.
- Making funding available to support capacity building.

Our research has illustrated how far many RSLs are being forced to fund activities which go beyond traditional housing management roles to deal with the problems of low demand. This has a considerable cost in itself, which will increase if RSLs are to contribute further to providing the support services and cross-service approach required in most areas.

The way the corporation uses its Approved Development Programme will be vital in ensuring that RSLs are fully supported

Allowing local authorities to spend 15 per cent of their capital receipts money on projects to support communities has been highly effective. This flexibility has allowed housing departments to deal with issues arising from their activities that would otherwise be difficult to address. The report therefore recommends that the corporation considers allowing a percentage of the ADP to be spent on projects directly supporting the sustainability of housing, for which RSLs would bid.

To achieve this the current objectives for the ADP should be amended. The second objective "to contribute to the regeneration of deprived neighbourhoods by helping to fund the refurbishment or replacement of existing housing" should be amended by adding "or measures to support its sustainability".

This report has highlighted the importance of properly targeted housing investment in arresting the decline of the areas worst affected by changed patterns of economic activity. We are concerned that the needs of areas of low demand might be underplayed within the ADP as a whole as a result of the current review of the Housing Needs Indicator. Given the scale of the different needs within different parts of the country, the current level of ADP nationally is insufficient and therefore resources will inevitably be stretched. Whilst the investment needs of high demand areas are considerable, it is vital that a balance is struck which recognises the danger of high demand areas sucking in resources at the expense of areas where different, but equally urgent, problems need to be addressed.

Mark Lupton is policy analyst at the Chartered Institute of Housing.

Sustaining success – registered social landlords, financial risk and low demand is available, priced £20 plus £1.50 p&p, from the Institute. Tel: 02476 851752

Answers to Article 5

1. Because the traditional solution for associations facing difficulties – merger - is unlikely to be available. RSLs in high demand areas will have no incentive to take over low demand stock. With a tightly controlled rent increase regime, RSLs will need to protect their credit assessment with lenders. Multi-regional RSLs are likely to prioritise investment in their own stock and to develop in high demand areas.
2. No - he takes the view that RSLs are very important to areas of economic decline. A local base and their commitment to the area make them amongst the best placed local businesses to tackle such areas' problems.
3. The Housing Corporation could develop incentives for stronger RSLs to accept mergers of associations operating in such areas. Alternatively, the Corporation could develop new approaches to support such RSLs directly, e.g. through 'enterprise zones'. In any case, the way the Corporation uses the Approved Development Programme is vital to ensure that these RSLs are fully supported.
4. A balance between the different needs of different parts of the country. While recognising that resources are needed to provide additional homes in areas of high demand, he also highlights the need to invest in areas with different problems, those of ensuring the sustainability of the existing stock, which he suggests are equally urgent.

Article 6: Left on their own

Introduction to Article 6

In this article from *Roof*, November/December 2000, Steve Wilcox looks at help for home owners.

Questions on Article 6

1. Why does the author think more help should be provided for home owners?
2. What help does he identify as currently being available?
3. How does he quantify the inequality in help available to owner occupiers?
4. What solutions does he propose?

Left on their own

Nick Dave

Half of the poorest people in Britain are home owners, yet they get only 8 per cent of government housing support. It is time to end discrimination on the basis of tenure, says Steve Wilcox

It is now widely recognised that home ownership in the UK has diversified, and that there is a sizeable minority of home owners with low incomes. But the full extent of low-income home ownership is not always apparent from analyses – and policies - that are predominantly framed within tenures.

Half the poor, a new report for the Council of Mortgage Lenders (CML) focuses instead on the housing characteristics of low-income households, and from this perspective shows the full extent of low-income home ownership. On average, home owners are better off than tenants, and only a a minority of home owners have low incomes. But because owner occupation is by far the largest tenure. they constitute around a half of all poor households. The precise figure varies depending on which measure of poverty is applied:

- Home owners are 57 per cent of all households with n the lowest income decile (10 per cent) when measured before housing costs, and 42 per cent when measured after housing costs. However, the DSS 'after housing costs' measure fails to take account of owners' spending on repairs, and so underestimates their number.
- Owners make up 50 per cent of all households with incomes below income support levels who are not claiming IS.
- Low income owners make up 43 per cent of all households with gross incomes below £5,000 (1997/98 SEH). They comprise 62 per cent of the working, 49 per cent of the retired, and just 17 per cent of the non-working households with such low incomes.
- Home-buying households within the lowest income quintile (20 per cent) have housing costs amounting on average to 42 per cent of their net disposable incomes.

Similarly, although a greater proportion of private – and council – rented homes are in poor condition, the owner-occupied sector accounts for the largest portion of all homes in poor condition, on a range of indicators. Of households in the lowest income quintile (before housing costs) home owners in England (EHCS 1996) comprise :

- 46 per cent of all households in homes with amenities in need of modernisation
- 44 per cent of those in homes without central or programmable heating
- 47 per cent of those in poor housing.

The estimated cost of urgent repairs for home-owner households in the lowest income quintile was £2.8 billion in 1996 – half of the estimated cost of urgent repairs required for homes occupied by low income households in all tenures.

Low-income home owners also occupy less expensive homes, and have less equity, than better-off owners. Nonetheless, the average equity held by owners within the lowest three income deciles in 1996 was about £50,000. However, levels of equity are also strongly related to age and location, as well as income. Low-income owners below retirement age in the north have far lower levels of equity.

Moreover, while there are a range of equity release schemes available to enhance the incomes of owners, these are generally restricted to people well above retirement age. Nor have those schemes proved to be widely attractive.

While most low-income households still aspire to home ownership, those aspirations are in sharp contrast to the patterns of low-income households' tenure mobility. Over the three-year period from 1995 to 1997 just over 80,000 low-income home owners moved out of home ownership, many as a result of repossession. Clearly, low-income home ownership is not readily sustainable.

Over the same period just 50,000 low-income households entered home ownership, including 20,000 who exercised the right to buy. Only one in five of those entering home ownership through the right to buy and other low-cost ownership schemes have very low incomes (in the lowest fifth of all incomes). Most have moderate or even high incomes.

The result is that, even during a relatively benign period of economic growth and housing market stability, and the operation of policies designed to promote entry into home ownership, there was an annual net exodus of some 10,000 low income households from the home owner sector. So the growth of low-income households is not a consequence of the direct entry into the sector. Rather it is the result of changes of circumstances, such as unemployment, ill health, relationship breakdown or retirement, that have reduced their incomes.

The overall level of financial support for owners fell sharply this April with the abolition of mortgage interest tax relief.

The housing green paper now proposes to abolish the means-tested scheme for home improvement grants without putting any national policy in its place

While owners continue to be exempt from capital gains tax, the estimated value of that exemption is lower than the yield from stamp duty. Moreover, housing equity makes up about a quarter of the total value of estates subject to inheritance tax.

Expenditure on private sector improvement grants has also fallen. Total grant expenditure was just £326 million in 1998; little more than half the level achieved four years earlier. The housing green paper now proposes to abolish the means-tested scheme for improvement grants without putting any national policy in its place. This is in stark contrast to the commitment – and provision of increased resources – to bring all social housing up to a decent standard over the coming decade.

The number of income support and job seekers' allowance claimants receiving help with their mortgage costs (ISMI) fell to 317,000 in 1999, from a peak of 555,000 in 1993. This reflects both the fall in unemployment over the period, and the time delays on eligibility for ISMI introduced in October 1995. The CML and Association of British Insurers are now promoting a minimum standard of mortgage payment policy insurance (MPPI), but less than a third of all new mortgages are covered by such policies (and less than a fifth of all mortgages).

The annual cost of ISMI is now just £688 million (down from £1.2 billion), and the average payment in 1998 was £40.53 per week. This was less than the average housing benefit payment made to council tenants in receipt of income support, and far less than the average payments made to RSL and private tenants.

Altogether, annual support to low-income home owners through ISMI and improvement grants and low-cost home ownership schemes amounts to some £1 billion. Support to low income tenants through housing benefit amounts to £11.2 billion. In other words, while low-income home owners are half the poor, they get just 8 per cent of the benefits . This imbalance has been thrown into sharper focus with the ending of MIRAS.

If the provision of choice to households of all incomes is a cornerstone of policy, then it would be similarly logical to expect policies to be tenure neutral, if not to respond positively to the evidence of household aspirations in favour of ownership.

One objection to providing support to home owners is that they are acquiring a capital asset as well as meeting their housing needs. But what is the difference between providing support to low-income home owners who are acquiring an asset and providing support to low-income tenants whose rents are contributing to the acquisition costs of their home by their landlords?

In the fullness of time that equity, however modest, will be realised. But for the lifetime of the owner it is primarily tied up in providing a place of residence. Equity release schemes have not proved attractive to many elderly owners, and,while the owners continues to live in their homes, there are inherent limitations to the extent to which they can boost incomes. Such schemes are of no practical use to low income owners below (or even just above) retirement age.

Attitudes to equity ownership nonetheless underlie both the crude exclusion of owners from the housing benefit scheme, and the very limited and discretionary support for the cost of repairs and improvements. Rather than blanket tenure-driven policies rooted in generalised attitudes to housing equity, policies need to engage in a more specific debate about the appropriate treatment of housing equity, in a context that recognises both the practical and attitudinal constraints on equity release.

In the long term, there is a strong case for the introduction of a tenure-neutral housing allowance scheme. In the short term, steps in that direction could be taken in a number of ways, including the addition of a flat-rate housing cost addition for households all tenures, to the child and/or employment credits that will replace working families tax credit in 2003. ■

Steve Wilcox is a professor at the Centre for Housing Policy, University of York

Answers to Article 6

1. Because there is a very sizeable minority of owners with low incomes - about half of all poor households live in the owner occupied sector.
2. Exemption from Capital Gains Tax. Private sector improvement grants. Help with mortgage costs for people on Income Support.
3. Home owners are half the poor, but they get only 8% of government housing support.
4. A tenure-neutral housing allowance scheme.

Article 7: Too much pressure

Introduction to Article 7

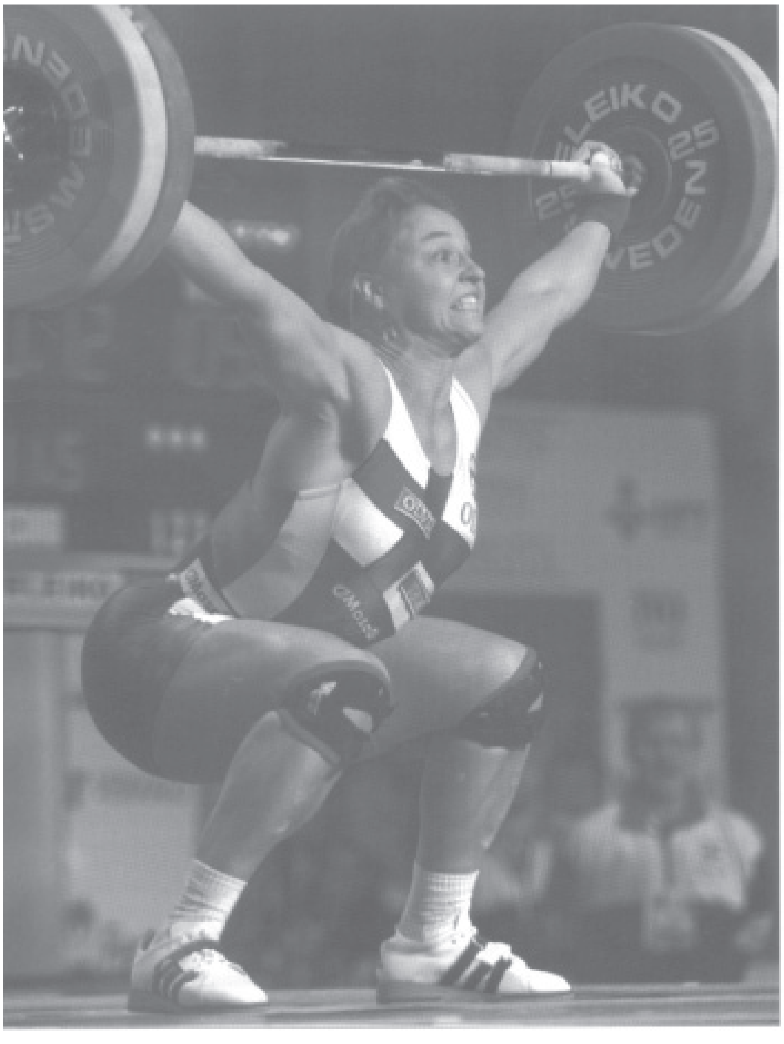
This article from *Roof*, January/February 2001, examines the crisis in the Housing Benefits system.

Questions on Article 7

1. What proportions of Housing Benefit claims were not being processed within the statutory 14 day target?
2. What reasons are given for the problem?
3. What were the proposals put forward by the Social Security Select Committee?
4. What has been the response?

Britain's housing benefit system is in crisis, with hundreds of thousands of claimants suffering intolerable delays. Over-regulation, combined with shockingly poor levels of service and disastrous local privatisations have conspired to push the system to the point of collapse. Will the government now act? Julian Blake reports

Too much pressure



Imagine this scenario. Britain's high street banks suddenly cut all supplies of money to everyone living in the city of Edinburgh. They then follow that up by doing exactly the same thing in Liverpool.

Unlikely? Not necessarily. Because this is the exact equivalent of the sort of misery inflicted by failures in the housing benefit system over the past two years. In 1998/99, according to new Department of Social Security (DSS) figures, the number of people whose new housing benefit claims failed to be processed within the statutory 14-day target was 529,000 – 23 per cent of the total and the equivalent of the population of Edinburgh. Last year, the figure was even worse, with 693,000 claims – 33 per cent of the total – the population of Liverpool.

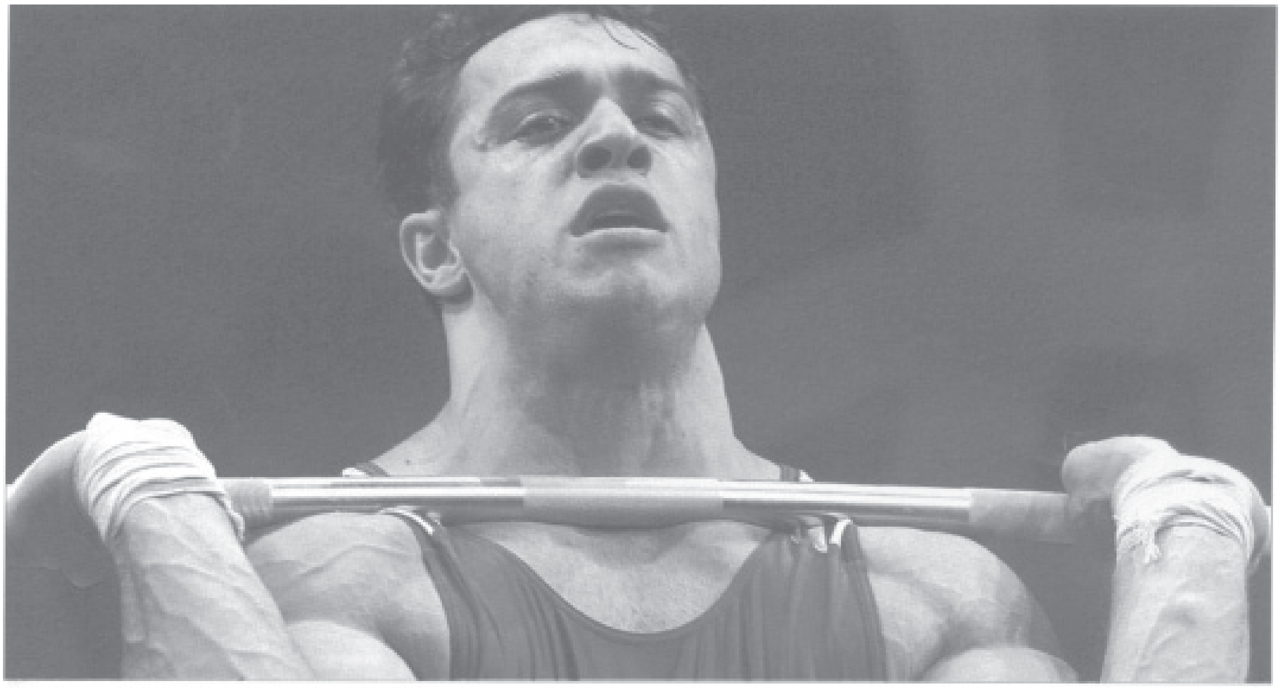
The scale of the crisis in the £12 billion a year benefit – which accounts for one per cent of UK gross domestic product – is staggering. Equally staggering, it must be said, is the government's apparent complacency on the issue.

The national crisis has been fuelled by some very high-profile local problems. In Hackney in November, the Audit Commission delivered a damning report on the council's administration of the benefit. Some 17,000 residents were still waiting to receive housing benefit. The council had 'very serious financial and service delivery problems', the commission concluded. In Hackney and many other parts of the country, what began as an administrative problem has become a crisis for the whole system and for the people it is supposed to help – and even for landlords (see box).

'The system is in crisis nationally and is at risk of collapse,' Gwyneth Taylor, housing policy officer at the Local Government Association (LGA), told ROOF. 'Local authorities across the country are right on the edge.'

Last July, the parliamentary social security select committee delivered its verdict: the system was unwieldy, over-complicated and long overdue for reform. Administration had to be a key part of any wider reform agenda, MPs said. Without that, they said, reform 'will have failed'. In September the local government ombudsman highlighted a staggering 83 per cent year-on-year increase in the number of complaints received about housing benefit.

So what's been going on? Is it the failure of local authorities like Hackney to be able to run their services properly? This cannot be ruled out as a factor. Some councils' performance on housing benefit has been shameful. The ombudsman's report highlighted the fact that just four councils – Lambeth,



Hackney, Islington and Southwark – accounted for over 60 per cent of housing benefit complaints.

All four had outsourced their housing benefit services – and were clearly seeing no improvement overall. But to place the blame at the door of a few inner-London local authorities and their contractors would be far too simplistic, says the LGA. Their problems may be great, but they do not explain the crisis being faced across the country. After all, the Audit Commission has said that more than four out of ten local authorities are providing a poor service.

Ask most experts for their opinion on the single change that has led to the huge rise in housing benefit delays in the last two years and they will tell you: the controversial 'verification framework' introduced by the DSS in 1998 to tackle fraud in the system.

The framework sets out the information that should be obtained by a council before housing benefit is paid out. It specifies what evidence is acceptable to back up claims and the checks that must be made during the life of the claim. At the moment the framework is a discretionary scheme, although ministers are eager to ensure all authorities sign up to it. As of May 2000, 245 local authorities had signed up to the scheme, with another 164 claiming that they had set up systems that made them compliant. Each authority that signs up is given financial support by the DSS for set-up and initial running costs.

The reason verification is such a millstone around the necks of housing benefit officers is that it introduces so many new checks and processes into each claim. Benefit periods have to be restricted for some groups of people – meaning that reassessments have to take place much more often. Councils are also required to make visits to claimants within a set period of time. This means time taken out of the office that could be spent tidying up delays elsewhere. Far more documentation is also required about income and their circumstances. Finally, the system requires other cross-checks, such as cross-referring with the electoral register. A lot more rigorous in terms of verifying an individual claim, for sure, but all in all, a lot more paperwork all round.

Burnley in Lancashire is one of the authorities to have gone through verification. Its benefits administration spent most of 2000 in a mess. 'It was only when we introduced the framework that we realised the amount of work that was involved,' says Rob Astbury, benefits manager at Burnley borough council. 'The number of telephone calls shot up dramatically. One day we were handling 50 calls, then the next it seemed like we were handling 500. Added to that, the new verification rules meant that so many more people were coming into the office. Our workload went through the roof. Within a few weeks we saw our performance on housing benefit plummeting.'

The number of new claims Burnley processed within 14 days fell from around 85 per cent to just 35 per cent. 'It wasn't just the verification framework,' Astbury says, 'but there's no doubt that verification was a big part of our extra workload. The trouble is, once you ▶

ASSOCIATIONS SET TO TAKE ON VERIFICATION

Housing associations look set to take on verification of their tenants' housing benefit claims, as a way of easing the pressure on beleaguered local authorities.

Associations are losing £84 million a year because of the chaos in administration, according to a survey this autumn by the National Housing Federation (NHF). The survey found that each association was owed, on average, £210,000 in lost benefits and was losing an average £47,000 a year in lost interest. Much of this will never be recovered.

The NHF campaign may have worked. The DSS is considering pilots from April, with associations verifying claims at arm's-length in conjunction with the benefits fraud inspectorate.

Associations surveyed had complained that the crisis was costing them in terms of officer time and bad debts. 'It is almost impossible to meet arrears targets when 50 per cent of the arrears are attributable to third-party inefficiency,' said one respondent.

The NHF said its members were suffering a two per cent shortfall in rental income thanks to late or non-payment by local authorities. It pointed to over-complications in the system, four-week arrears payments and the verification framework.

In separate research in October, associations were found to be withdrawing from the provision of temporary housing because of the crisis. The benefit system had greatly increased the risks associations were taking.

The result, warned West Hampstead housing association, was that local authorities would again turn to unsuitable and costly bed and breakfast accommodation for homeless families.

'Feeble and complacent'

That's how **Archy Kirkwood MP**, chair of the social security select committee, describes the government's attitude

Housing benefit is arguably the biggest social policy failure of Tony Blair's government and the departmental response to the social security select committee's report on it confirms my suspicion that ministers have no idea of what to do next.

No-one doubts that reform will be difficult, but no-one involved in the current scheme doubts that it is already in a state of collapse, is failing claimants, is a hurdle to work, is dragging councils into administrative chaos, and is providing opportunities for fraud on an unacceptable scale.

The tone of the departmental response to positive short- and long-term suggestions made as a result of the committee's housing benefit inquiry was both feeble and complacent. We were accused by the department of ignoring 'very significant advances which continue to be made in improving service delivery'.

In fact, most of the government's 'improvements' were seen by local authorities as part of a wider problem of the frequency with which changes to the system are made and the lack of notice that authorities are given to plan for change. The committee called for greater self-discipline and legislative stability to allow councils to concentrate on getting the service right. The government's response is nothing more than a series of the worst kind of civil service platitudes of the *Yes Minister* 'every effort is made to consult' variety.

'The government's response is nothing more than a series of the worst kind of civil service platitudes'

No-one in Westminster is expecting any substantive announcement to take the policy agenda forward until after the next election. There may be a number of minor statements about bits of the future agenda, but the paralysis at the heart of government in the area of housing benefit reform looks set to remain. Sadly, that means the current system will stay in place for at least another two or three years and the misery for the claimants served by the current rules set to continue.

Without any further delay we should introduce a series of short-term improvements to the existing scheme. Simplification is both possible and desirable. For example, making awards for fixed periods of time, simplifying the non-dependant deduction rules and the rent limit schemes, are typical of the kinds of areas in which early progress could be made. I cannot understand why, for example, the four-week transitional continuation of housing benefit for households coming off income support should not immediately be extended to eight or 12 weeks. Such an extension would provide a realistic bridge for households moving into low-paid work, many of whom face more than 12-week delays in reassessing their entitlement.

Of course, some of these changes would cost money and some of them would require either primary or secondary legislative change. But it surely must be possible for ministers faced with relatively favourable circumstances to be bolder in tackling this fundamental issue which affects so many disadvantaged households. There is, for example, an unanswerable case for uprating earnings disregards to restore them to 1988 values. The failure to uprate reduces the value of housing benefit in real terms for households in low-paid work and diminishes the margins between the incomes of households in and out of work. It would reinforce the message that work pays if the government announced the restoration and annual uprating of earnings disregards in the same way as other benefits are increased annually.

The tone of the departmental response to this and other recommendations made by the committee suggests that the government has not properly recognised that housing benefit is floating rapidly up the political agenda as an issue demanding urgent attention and fundamental reform. If long-term changes are proving difficult, then the government should come forward and admit that it is not going to happen immediately. It should then bring forward significant simplifications which would provide extra resources to enable the system to be administered in a more coherent manner until such time as the longer-term policy changes can be developed and implemented. ■

◄ have a backlog, it's difficult to break the cycle without bringing in extra staff.'

Which, last summer, is exactly what Burnley needed to do to rescue its benefit service. The staff complement shot up from 25 to 41 and seemed to do the trick. Between 70 and 75 per cent of claims are now processed within the 14-day limit, with an average turnaround time of 22-23 days.

Like other councils that signed up to the framework, Burnley took financial help from the DSS to aid set-up. But Astley says 'the amount the council received was not even close to the money we needed to spend on extra staff. It was quite a large financial investment and it would certainly have added to the council tax here.'

Ever since the introduction of the framework, the LGA has been lobbying for change. Although it endorsed the principle of verification – to help squeeze fraud out of the system – it has serious misgivings about the framework's financial structure and the processes involved.

This summer the LGA finally secured concessions. The DSS has started a review which is apparently nearly complete. Under pressure, it has also made some additional money available through the subsidy system to ease the financial costs to authorities introducing verification. Not out of the bureaucratic woods yet by a long way, but maybe, just maybe, starting to find a way.

But to explain away the continuing crisis in the housing benefit system by pointing to the verification framework would really miss the point. Verification can offer only part of an explanation. It is symptomatic of something much more fundamental: housing benefit's incredible complexity and the constant piecemeal change being dictated from the top.

The current system is there by historical accident rather than design. It has developed since 1948, when housing help was included in the original national assistance scheme. In 1972, rent rebates were introduced to help council tenants, then in 1973 the parallel rent allowance scheme came forward for private and housing association tenants.

Integration of the rebate and allowance scheme finally came in 1988, but not before a whole raft of regulations had been established. Since 1988, the system has remained fundamentally unchanged, but has evolved through a series of DSS regulations and circulars. Which is where we are today.

For Gwyneth Taylor, the biggest single explanation for the crisis is that the entire scheme has become so complicated.

'There have been so many changes made by the DSS,' she says. 'In the past year alone the DSS issued 81 circulars on housing benefit, most of which require guidance notes, software changes and new forms to be issued by local authorities. And, as well as the constant drip-drip of minor changes, there are major changes being introduced – like the verification framework – without enough notification. Councils just aren't being given the time to implement them.'

The LGA and others have long been campaigning to make the entire system more simple to administer. They welcomed the opportunity that was offered by the DSS in 1998 to simplify the scheme. The 'simplification and improvement project' appeared to offer a real chance to sort things out. The government is making moves towards ending duplication at the claimant end of the system. It is developing proposals for a new integrated claims process, as part of its so-called 'working age services modernisation project'. That proposal involves information being gathered over the phone by DSS staff, verified, and then transferred electronically to local authorities for processing and payment. The most up-to-date target time for full implementation is March 2003.

But the pace of the simplification project has been painfully slow. 'There was a lot of work done on simplification, but things have not been taken forward,' says Gwyneth Taylor. 'We believe this is primarily to do with the short-term cost of making the necessary changes. The simplification project is starting to look like a missed opportunity.'

'One day we were handling 50 calls, then the next it seemed like we were handling 500. Our workload went through the roof. Within a few weeks our performance plummeted'

Campaigners pushed for some specific changes to the rules on housing benefit to make life easier for the people that administer it and the people claiming it. Shelter, for instance, has been pressing for fixed benefit periods, where reassessments of a claimant's circumstances are made once every six months. And the Chartered Institute of Housing argues that 'earnings disregards' (the maximum anyone can earn before it affects benefit entitlement) should be doubled – dramatically reducing the administration involved in reassessing individual claims.

Both of these proposals were put forward by the social security select committee in its July report. But the government's response was decidedly sniffy. 'The report does not fully acknowledge the very significant advances that continue to be made in improving service delivery,' it said. 'History shows that in this area it is far more important to get it right than to rush into ill-conceived, poorly planned reforms. The priority must be to ensure that people on low incomes receive the help they need for a decent home.' The answer to the more long-term issues would come 'in due course', with the government's reaction to its housing green paper consultation.

A parliamentary answer given in November by social security minister Angela Eagle seemed to confirm that the government regarded council performance as the problem – rather than the complexity of the system itself.

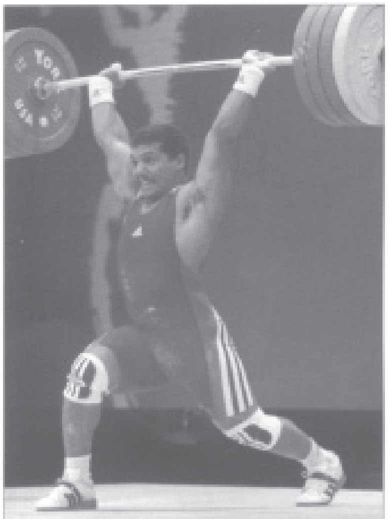
She said the DSS was 'determined' to secure improvements in administration and had already introduced measures such as best value performance indicators, an inspection programme by the benefit fraud inspectorate and better use of IT. 'We have made it abundantly clear to all local authority chief executives that where the inspectorate finds evidence of persistent failings. We will use our powers to direct the authority as to the improved standards it is to attain and the timescales for achieving them.'

But many remain sceptical about the ability of best value, backed up by a toughened-up inspection process and improved IT, to deal with something much more fundamental: a system that is drowning in paperwork and regulation. And, after all, best value may deliver many things, but less paperwork is not necessarily one of them.

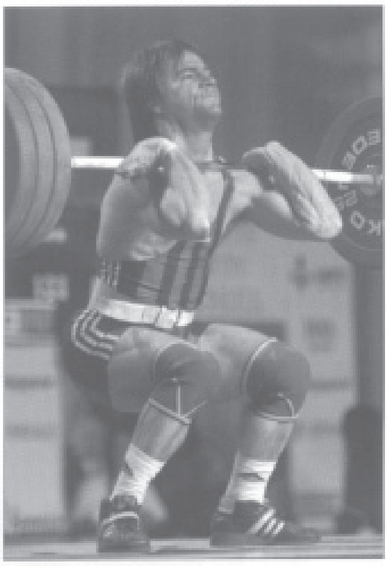
Exasperated campaigners wrote to the government in November in an attempt to get things moving on simplifying the system. A joint letter to social security secretary Alistair Darling from the LGA, CIH, Shelter and the National Housing Federation called for urgent talks on the crisis. The letter called for swift action on the DSS management of the whole scheme, on funding for administrative changes including the verification framework and for changes to the rules to reduce administration.

Essentially the four organisations were looking to the DSS to take some responsibility for sorting out changes to the scheme. 'Immediate action must be taken,' they said.

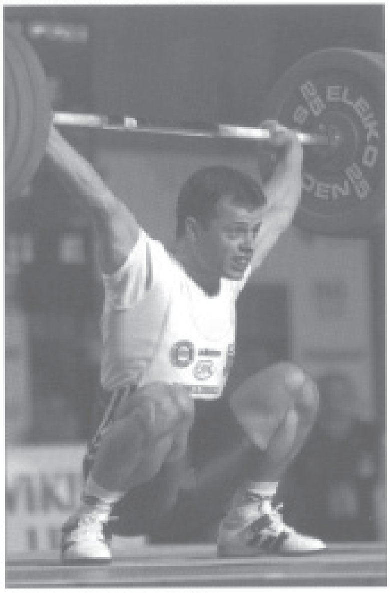
History, it has to be said, is not on their side. ■



Verification: bureaucratic nightmare



Simplification: not much so far



Improvement: you're joking

Answers to Article 7

1. 33% in 1999/2000.
2. It depends on who you ask. Amongst the reasons given are: incompetent councils, introduction of the verification framework; over-complication in the system; and payments being made four weeks in arrears.
3. A review of the administrative processes; the introduction of fixed benefit periods; and an increase in earnings 'disregards.'
4. The government did not respond as campaigners hoped. They suggested that poor council performance was the major cause and resisted pleas for urgent action.

Article 8: No, minister

Introduction to Article 8

This article from *Housing*, November 2000, considers the proposals for rent reform in the local authority and RSL sectors in England and Wales. It argues that while the objectives behind the proposals are sound, the approach is flawed.

Questions on Article 8

1. What were the objectives of the rent reform proposals?
2. What does the author see as a stumbling block to implementing the proposals?
3. What alternative does he propose?
4. What benefits does he think this would bring?

No, minister

So, what is the biggest issue exercising the sector at the moment? Well it's rent, of course. Because although the future for housing looks brighter – the Green Paper, National Strategy for Neighbourhood Renewal and the Urban White Paper promise to deal with many of the problems of the last 20 years. Proposals to restructure the rent regime could jeopardise all of that.

No-one could reasonably disagree with the objectives. Of course it's a good idea to encourage affordable rents. It sounds like an excellent plan to give some coherence to the housing association and local authority market by introducing the concept of convergence – reducing the gap between rents charged by councils and RSLs. There is no doubt that, if we were starting from scratch, a planned approach could achieve all this. But the problem is that where we are; a myriad of differential rents based on a variety of financial regimes is already with us.

For example, the Government proposal that rents should be set according to regional averages, completely disregards local markets. We all know that private rents and property prices vary dramatically in very small geographical areas throughout the country. The market does not respect geography and at present regional averages produce, for many associations, both increases and reductions which cannot be justified. For those of us operating in areas of modest demand, it could push up our rents by up to £10 per week ahead of the private rented sector – not a good business proposition.

The mix of local earnings and capital values looks interesting in principle, but leads to anomalies in practice because of the 'one size fits all' formula. Do we really want rents to rise in some parts of London where they are already unaffordable? Do we really wish to see rents in, for example, parts of the north, Midlands and south west, going down to levels which social landlords would find financially unsustainable?

Convergence between local authority and housing association rents is right in principle but for much of the country, it could be very difficult in practice. This is because of the different financing regimes under which the properties were built. A council, which built its properties 30 or 40 years ago, will have much lower costs and therefore lower rents than, say, a black and minority ethnic (BME) housing association which has borrowed private finance to build in the last few years. It will take years to bridge the gap – which might be as much as 50 per cent - and it is questionable whether it is desirable if it is assumed that the association property built to modern standards is more popular. It would clearly be impossible to reduce the rent of the BME property to local authority levels without considerable public subsidy via revenue grants – and none of us wishes to return to the days of revenue deficit grant or similar.

The proposal for an RPI + 0 per cent regime in terms of rent increases for housing associations is also part of the mechanism for keeping rents down. There is always scope for efficiency improvements. But plans to impose the new regime over a 10-year period suggests a Government belief that there's a lot of sloppiness within UK RSLs. Either that, or it expects some very severe cuts to be made, leading inevitably to service level reductions.

The problem is aggravated by the fact that associations really only have two major areas of spend – salaries and maintenance. The former, in line with the rest of the economy over the last 50 years, tend to go up by RPI + 1-2 per cent. The latter, being a mix of wages and material costs, usually exceeds RPI, too.

Indeed, if the proposed 200,000 unit transfer from local authorities goes ahead, the pressure on the building industry will be enormous and it is likely that costs of contractors will increase. The creation of senior and middle management jobs as a result of the transfer programme, and the general spotlight on urban renewal, will also put pressure on costs. In the wider market, an increase in demand usually means an increase in cost pressures and there is no reason why the housing sector should be different.

Attempts to cut back on the major area of expenditure – housing management – will be inhibited by the cost of collecting housing benefit. There are no obvious signs of this huge problem being

Proposals for rent reform are well-intentioned. But in practice, they'll put wider plans for regeneration and improved housing services under threat, says **Malcolm Levi**

solved and, in order to maintain cashflow, associations have no option but to increase the resources available. The danger is that cuts will be made in maintenance and major repair programmes and social inclusion initiatives.

We are all aware of the problems local authorities face as a result of many years of under spending on maintenance and major repairs. To be competitive and to provide attractive homes where tenants wish to live, properties must not only be kept in good repair, but must be modernised. This means expenditure on bathrooms, kitchens and the surrounding environment, particularly on older housing stock. It cannot be sensible to cut back in this key area which, as every tenant survey shows, is vital to the satisfaction of our tenants.

Many associations operate on estates which fall into the classic definition of social exclusion – mass unemployment, high crime, poor education, serious drug problems, poor health and general despair. They spend considerable sums on a whole range of initiatives which have been much encouraged over the past few years by the Housing Corporation, and which took on a particular impetus after the Prime Minister defined social exclusion while visiting the Aylesbury estate in south London just after the election.

It is true that we are getting better at bringing in money from other sources, notably Europe, SRB. But inevitably, a considerable sum is invested from associations' own resources. The minister has a point when he says that the rents of poor people should not be used for these purposes. But unfortunately we cannot rely on others at the present time to provide the funding or, better still, render these initiatives unnecessary because of the success of education and crime and drug prevention programmes, and employment generation. Until that happens, we have no option but to invest our own funds. If we do not, the fragile successes will quickly turn to failures, voids will increase, and management difficulties will reappear. The cycle of decline will kick in.

Lastly, but of great importance, rent reductions and a 10 year RPI + 0 per cent regime reduce income and cash flow. As businesses, albeit with a social purpose, we have to manage our financial affairs and honour our loan covenants. In this context, cash flow is king, and we forget it at our peril.

So what is the alternative? Well, I believe it should be a refined Housing Corporation rent-influencing regime. This should set ranges for particular property types, in particular areas, based on local market conditions – and taking into account a combination of quality and location. For example, the rent for a two-bed flat in a particular area might reasonably be £50-60 per week with a differential due to a whole variety of issues but – principally, quality and location; as is the case with the private sector. Outlier rents - eg £65 per week – must reduce quickly to the top of the range.

While convergence between local authorities and housing association rents should be encouraged, we must accept that in many areas, due to different financing systems, it is simply not possible, and a compromise position should be reached. Again, this could be dealt with under the Housing Corporation's regulatory regime.

While there might be some merit in an initial period of RPI + 0 per cent for rent increases, it would be more sensible and realistic to use the average earnings index given the nature of housing association costs.

This approach would improve affordability, deal with inefficiencies, help with convergence, and allow associations to make a major contribution to the raft of welcome policy initiatives coming from Government. It is hard to see how the majority of associations could direct their proven skills to regeneration initiatives, stock transfers etc if the Green Paper proposals are not amended radically. Put simply, we will become risk-averse. Some might encounter very severe viability problems; more will have to reduce service levels after a few years of RPI + 0 per cent and reducing income and cash flow. The objectives are right, but the minister should consider alternative ways of achieving them. ◆

Malcolm Levi is chief executive of Home Group, one of the country's largest housing associations

Answers to Article 8

1. To reduce the gap between rents charged by councils and RSLs; to introduce a system of rent setting that relates to capital value of the property and local average earnings.
2. The myriad of different rents based on a variety of different financial regimes.
3. He suggests that compromise is needed and that while rent-influencing should take place, this should not be a prescriptive regime.
4. He believes this would improve affordability, deal with inefficiencies and help with convergence, while avoiding the danger that housing associations might encounter viability problems or become so risk-averse that they will not be willing to engage in activities like regeneration or to become involved in stock transfer initiatives.

Article 9: The long and winding road

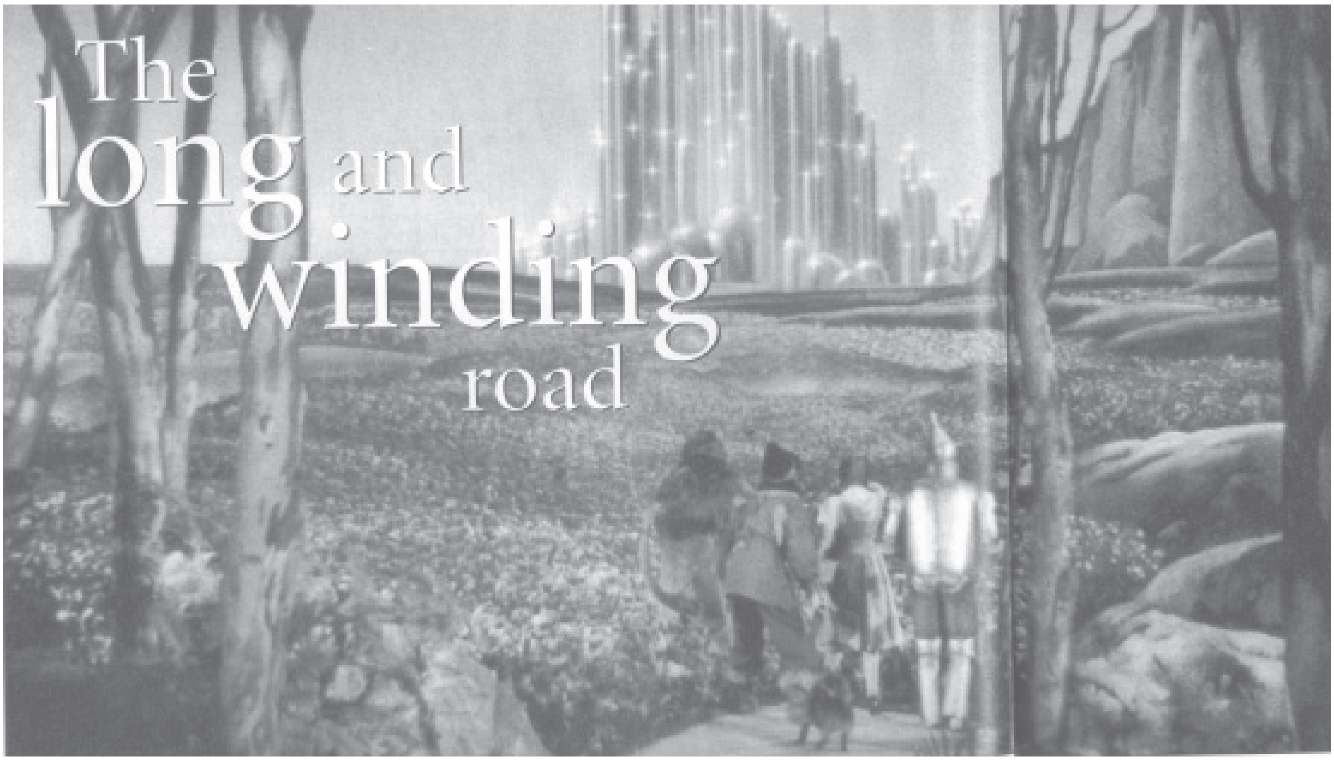
Introduction to Article 9

This final article comes from *Inside Housing*, 4 February 2000. It reports on the funding proposals in the Institute of Public Policy Research's inquiry into the future of social housing. You will note, coincidentally, that some of the other proposals trailed in the research have found their way into policy proposals - such as those for rent restructuring and Housing Benefit reform that you have just been considering.

Questions on Article 9

1. What financial tools are suggested as a means of reducing differentiation between tenures?
2. How is it suggested that a consistent relationship between rents and services across housing could be achieved?
3. What type of reform is proposed to social landlord finance?
4. What 'health warning' does the author give?

The long and winding road



The Institute of Public Policy Research inquiry into social housing's future steps up a gear with a report outlining landlords' views and groundbreaking proposals for funding the sector. Sue Regan reports

All the talk of an accelerated stock transfer programme and a hasty demise of council housing is obscuring a far more fundamental and necessary debate. Continued transfers may be one means to a desired end, but let's work out what the 'end' should be, and then assess the best way of getting there.

This is the approach that the Institute for Public Policy Research policy forum on the future of social housing has adopted.

If we fail to take this long term perspective, and fail to look at the consequences of today's policy reforms, we will only succeed in ending up somewhere no one wants to be.

Last August, the IPPR forum issued a consultation paper seeking the views of everyone in and around the housing world on the future of social housing.

A wide range of responses was received. They prove an interesting read, and shed a bright light when debating the long term future of the sector.

This week the IPPR is also publishing a discussion paper by Professor John Hills of the London School of Economics.

Reinventing social housing finance sets out a clear analysis of where we are today, and suggests some far-sighted and progressive proposals that the forum will be debating in the coming months.

A clear theme emerging from the consultation responses is a need to look beyond today's problems and to set out a long term vision for social housing. A range of attributes for a new vision were put forward.

Critically, they describe a sector which is part of a bigger picture of all housing – a holistic approach which looks at the provision of affordable housing across all tenures.

Social housing is criticised for being insular in the past, for not fully exploring the world around it, and therefore not recognising that the world has changed.

This led respondents to set out a future sector that anticipates demographic, social and economic change and matches its services and products to the needs and preferences of households. A better understanding of local housing markets, and the customers within them, and more effective strategic direction were a couple of the suggestions for taking us towards this goal.

Respondents also felt that new structures are needed for the 21st century. These might include a revised structure for housing associations and an arm's-length local authority corporation.

Both should have housing at the core but be able to operate flexibly as regeneration, social care or community development agencies.

Another strong theme to emerge was the need to redefine the objectives of social housing, and to make explicit a key objective of ensuring housing contributes to successful communities. Placing a responsibility on providers and planners to house people with a view to the long term future of the sustainability of those communities might then be needed.

The need to create and sustain communities and areas, which include a social mix, is a driver behind some of the ideas in the paper by Professor Hills.

He suggests that a different range of instruments for supporting people's housing may now be appropriate. A clear analysis of the problems of where we are today leads to a series of practical and cohesive reform proposals which are giving the IPPR forum plenty of food for thought.

The paper recognises the current polarisation of the choices which people can make in their housing decisions. The rigidity of a system where, for example, the only way to get into the housing market is to buy a whole property is exposed, and an expanded strategy for a range of housing choices suggested.

The aim would be to give choices which are less sharply differentiated between tenures and locations. Equity stakes, equity release and 'housing bonds' are some of the tools suggested to increase choice and to help contribute to mixed communities.

Foremost in the proposals is the need to tackle the bewildering and conflicting principles underlying the levels of social rents.

Currently tenants pay different amounts for the same thing and also have no means of using rents to assess the relative efficiency of landlords.

The paper sets out a framework for reform to create a consistent relationship between rents and services across housing.

This involves setting rents to cover management and maintenance, major repairs and a percentage of capital value. The paper suggests this percentage could be a fixed amount across the country up to, say, the average social housing property value, but with a lower return expected on values above this.

This 'kink' in the relationship between rents and values would avoid very high rents in high value areas, with their damaging consequences for the poverty and unemployment traps. It also helps achieve the aims of creating a social mix and avoiding polarisation.

The paper recognises that the choices people have in the social rented sector are far more restricted than for the majority of the population.

A move away from the current 'food parcel' approach – you get what you're given – is proposed. This involves giving people more choice over their housing and allowing them to make trade-offs between costs and the quality or location of housing.

More radically, the paper considers the reintroduction of 'shopping incentives' is a corollary of more choice. At the more modest end, it is suggested this could involve fixing benefit for a period, rather than changing it every time circumstances change.

More far-reaching would be a move towards a significant national flat rate element in benefit rates, with a locally varying percentage of actual rent used to calculate benefit.

The paper sees this as the best means of achieving effective shopping incentives, whilst ensuring that people in high cost areas receive higher benefit rates.

Sensibly these changes are seen as part of a long term process, which would allow for tenants to adjust and practice to be revised as experience of the changes grows.

Linked to these proposals is the need for reform to social landlord finances and a focus on financial structures which help underpin resident empowerment.

The paper suggests more local budgeting for day-to-day services, and setting clear and consistent guidelines on expected costs for the social rented sector.

A method for moving the financial structures of all kinds of social landlords onto the same footing is explored.

This means moving local authority housing onto a financial basis which looks much more like the current structure for housing associations. The paper suggests that this could be done through a series of stage for all councils, rather than only applying to those which opt for immediate outright transfer of their stock.

The aims of Professor Hills' proposals resonate with many of the views expressed in the consultation responses on the direction of where social housing should be going.

It is relatively easy to support a long-term objective to create more mixed communities that enhances tenant voice and influence. It seems straightforward to agree that reforms are needed to create coherence in social rent structures and to reduce polarisation in housing choices.

But the reforms to achieve these objectives will all require significant upheaval, and may have consequences that are not fully desirable.

We must be sure that we fully explore the implications of the emerging proposals, and the implications of doing nothing.

An interesting debate awaits us.

Sue Regan is senior research fellow in social policy at the Institute for Public Policy Research, and has responsibility for the forum on the future of social housing

***Reinventing Social Housing Finance* by John Hills and *Social Housing in the 21st Century – Your Views* by Sue Regan are available from Central Books on 0181 986 5488**

Answers to Article 9

1. Equity stakes, equity release and 'housing bonds.'
2. By setting rents to cover management and maintenance, major repairs and a percentage of capital value.
3. Moving the financial structures of all kinds of social landlords onto the same footing, so that local authorities would be treated in a similar way to RSLs.
4. She acknowledges that the reforms required to achieve the objectives will require significant upheaval and may have consequences that are not fully desirable. She therefore recommends that proposals be fully evaluated before any changes are implemented.