



Housing Investment in the Regions

Consultation on the indicators used to arrive at a regional split of funds for housing investment by local authorities and registered social landlords through the Regional Housing Pot

On 5th May 2006 the responsibilities of the Office of the Deputy Prime Minister (ODPM) transferred to the Department for Communities and Local Government

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November 2006

Product Code: 06 HC03845/48

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Executive Summary

- The Regional Housing Pot (RHP) was established as part of the new arrangements for housing funding set up by the Sustainable Communities Plan. It brings together funding streams which support increases in the supply of affordable housing, improvements in the overall condition of the existing housing stock across all sectors, and regeneration and the encouragement of mixed communities in the most deprived areas.
- In the years 2008-11, funding for the delivery of these objectives will be allocated to local authorities and registered social landlords (the latter through the Housing Corporation) on advice from the Regional Assemblies and, in London, the Mayor. However, the division of the RHP between Regions is arrived at by means of a formula reflecting key policy objectives.
- This paper sets out proposals for each of the indicators to be used in this formula to represent the policy objectives which Government seeks to support through RHP funding.
- Each indicator is described and, where appropriate, comparison is made with the related indicators used in the 2006-08 version of the formula. The key changes are :
 - exploration of possible options for two new indicators
 - an indicator to pick up affordable housing needs of the unemployed and economically inactive households
 - a mixed communities indicator
 - extension of the indicator reflecting affordable housing provision in the Growth Areas to include other targeted growth
 - updates to other indicators to reflect new and refreshed data.
- **It should be noted that this paper does not set out proposals for the relative weightings to be given to each indicator in the final formula. This will be the subject of a further, more targeted, consultation exercise once the outcome of the Comprehensive Spending Review in 2007 (CSR07) is known. It is also possible that new indicators may be added to reflect any new initiatives emerging from the CSR07 process.**
- **Stakeholders' views are sought on the extent to which the proposed indicators accurately reflect the policy outcomes they are designed to represent.**
- **The consultation is a limited technical consultation focussed on Regional Assemblies, local authorities and a range of specialist interest groups. The deadline for comments is Friday 16 February 2007 – see Chapter 4 for details.**

Chapter 1 – Policy context

Background

1.1 The Government believes that everyone should have the opportunity to live in a decent home, at a price they can afford, within a sustainable community. Through its policies, the Government aims to ensure:

- a wide choice of housing, both affordable¹ and market, to meet the needs of all sectors of the community
- improvements in the affordability of market housing (both owner occupied and rented) by means of a better balance between the supply of and demand for housing
- an increase in the condition of housing in all sectors to the decent homes standard, coupled with regeneration of the most deprived areas
- the creation and maintenance of sustainable, inclusive and mixed communities in all areas – both urban and rural.

1.2 The Government's commitment to these objectives was first set out in the *Sustainable Communities Plan* (2003). This was further amplified and reinforced in subsequent policy documents, including *Sustainable Communities: Homes for All* (2005); the *Response to Kate Barker's Review of Housing Supply* (2005); and the discussion paper issued earlier this year – *From Decent Homes to Sustainable Communities*. These documents establish a range of initiatives aimed at tackling the problems we face in housing today with a view to delivering the objectives Government has set:

- increases in the provision of social rented units for those unable to afford to rent in the market – increased subsidy levels will mean that outputs will increase from 20,000 units in 2005-06 to 30,000 in 2007-08. Increased provision has already contributed to real decreases in the numbers of households in temporary accommodation
- intermediate housing solutions aimed at those who have incomes which are too high to qualify for housing benefit, but too low, with conventional mortgage financing, to buy at the lowest prices in their area for 2 and 3 bedroom homes – the aim is to help up to 100,000 people who are currently renting privately or living with family to take their first step on the housing ladder by 2010
- within the intermediate housing programme, we have developed specific measures to help those working in key public services who would otherwise be forced, because of high housing costs, to move away from where those services are most needed – since 2001, 22,500 key workers have been helped to buy new homes
- wide ranging initiatives to tackle the most acute problems of low demand and abandonment – nine pathfinder partnerships have been established in the North and Midlands together with 3 further housing market renewal areas

¹ A definition for affordable housing is set out in the new Planning Policy Statement 3.

- much needed housing growth across all sectors in the wider South East and Midlands – four Growth Areas have been established, with 29 New Growth Points (covering 70 local authorities) in the pipeline
- substantially increased funding to bring all local authority owned stock up to the decent homes standard and to provide support for local authority led initiatives to regenerate and improve housing in the private sector – we aim to refurbish a total of 3.6 million homes between 1997 and 2010
- a new focus on linking work under the decent homes programme more explicitly to the creation of mixed communities through improvements to the areas surrounding the refurbished housing coupled with improvements in services
- a planning framework which underpins all these objectives.

Funding

- 1.3 All these initiatives are backed up by significant levels of public investment – £38bn from 2003-04 to 2007-08. Of this, £13bn has been channelled through the Regional Housing Pot which brings together capital funding streams which underpin several key elements of the Government’s approach on housing:
- the provision of affordable housing – both social rented and intermediate
 - decent homes activity directed at local authority-owned housing
 - initiatives to improve the condition of private sector housing stock in the most deprived areas alongside projects aimed at regeneration and the establishment of mixed communities.
- 1.4 The RHP does not currently include funding for the Housing Market Renewal pathfinders.
- 1.5 The level of funding to be included within the RHP for the next three years (2008-09 to 2010-11) will be determined as part of the Comprehensive Spending Review in 2007. However, in view of the importance of the RHP in delivering key Government objectives, we have already started work on the formula to be used in arriving at a regional split for RHP funding over the period 2008-11. **This consultation seeks views on the first stage of our work.**

Chapter 2 – Arriving at Regional Housing Pot allocations

General approach

- 2.1 The distribution of the RHP between the Regions has to reflect relative need in each region for funding to support the policy objectives that it is designed to underpin. For this reason, the regional split of the RHP is arrived at on a formulaic basis.
- 2.2 Chapter 3 of this paper sets out proposals for each of the indicators to be used in the formula. Some of the proposed indicators are made up of several elements, but each is designed to reflect a specific policy outcome or output. **This consultation seeks views on the extent to which the proposed indicators reflect those policy outcomes and outputs. Views would also be welcomed on whether or not any of the proposed indicators bring with them unintended perverse incentives or have the potential to unfairly skew funding away from or towards specific groups or Regions.**
- 2.3 Having established a regional split for the RHP, Ministers draw on advice from the Regional Assemblies to arrive at a view on funding priorities for each Region. Regional Assemblies' advice may cover the levels, types and broad locations for affordable housing outputs in their area and the relative levels of spend on affordable housing, decent homes, regeneration and mixed communities in their Region². Subject to the 'fit' between Regional Assemblies' advice and national priorities, there is a strong presumption that their advice will be reflected in the spending programmes to emerge from this process.
- 2.4 Following announcements as to the broad split of funding in each Region between the broad activities which the RHP is intended to support, detailed funding proposals are developed by two mechanisms.
- 2.5 Funding for the national affordable housing programme is channelled through the Housing Corporation which develops a building programme made up of projects run by Registered Social Landlords and other developers with an interest in building and managing affordable housing. In developing its programme, the Housing Corporation will reflect the priorities identified by the Regional Assemblies in their advice to Ministers³.

² For the purposes of the CSR07 period, these arrangements will apply to all Regional Assemblies, including the GLA. However, proposals are in place to increase the powers of the Mayor in respect of the affordable housing part of the RHP as part of the proposed GLA Bill. It is not envisaged that any new powers emerging from the parliamentary processes associated with the Bill will come into force until November 2007. This will be after the processes described in this paper have been completed.

³ The Housing Corporation is currently being looked at as part of the Housing and Regeneration Review. Any decision on the future structure of the Housing Corporation – as a stand alone agency or part of a new agency – will not affect its relationship with RSLs.

- 2.6 Funding for all other activities supported by the RHP is allocated directly by Government to individual local authorities or sub-regional groupings of local authorities on advice from the Regional Assemblies. Regional Assemblies employ a range of approaches to arriving at their recommendations including distribution by formula and inviting bids from local authorities or sub-regional groupings of local authorities based around a variety of criteria relevant to the Region.

The process for allocations in 2008 to 2011

- 2.7 In order to dovetail with the timetables for the CSR07 and the development of a National Affordable Housing Programme for 2008-11, the process for arriving at allocations drawn from the RHP for 2008-11 has been adjusted. It may need to change further to reflect developments emerging from the Comprehensive Spending Review, but a provisional process is outlined below for information:
- a. **initial consultation (covered by this paper)** – a full consultation exercise, from **November 2006 to February 2007**, on the elements making up the formula to be used in splitting the RHP between Regions. The consultation will allow the Regional Assemblies, local authorities and other interested parties to provide views on whether the proposed elements adequately reflect the needs assessments and policy objectives they are designed to symbolise. **The consultation does not cover the relative weightings given to each indicator within the formula since that would prejudice the outcome of CSR07**
 - b. **advice from the Regions** – following the consultation exercise, we will seek advice from the Regions (**March to June 2007**) on funding priorities in their area. This would be based around the elements established through (a) and go beyond that level of disaggregation to seek views on the balance of the affordable housing programme in each Region. There will be no necessity for the Regions to revise their Regional Housing Strategies, but this timetable will enable them to do so if they wish. Their advice can also draw on the work they have done as part of the Regional Funding Allocations exercise earlier this year
 - c. **consultation on full formula for regional split** – once the outcome of CSR07 is known, we propose a necessarily shorter and more targeted consultation exercise (in **August 2007**) to inform ministers' final decisions on the regional split for 2008-11. This will take on board responses to the consultation exercise under (a) above and Regional Assemblies' advice on funding priorities provided under (b) above. The final formula will also reflect priorities emerging from CSR07 through the weightings given to the indicators established by (a). It would also be possible, if necessary, to add indicators to reflect any new initiatives identified during CSR07
 - d. **ministerial announcement of funding** – we anticipate that ministers will announce final decisions on the regional split of RHP funding and the disaggregation of each Region's share between key priorities in **September 2007**. This will leave sufficient time for the processes associated with establishing a National Affordable Housing Programme and Regional Assemblies' detailed recommendations for allocations to local authorities to be completed in time for the beginning of the CSR07 period in **April 2008**. It is envisaged that, where appropriate, proposals for allocations, both as part of the National Affordable Housing Programme, and to local authorities on advice from the Regions, should cover all 3 years of the CSR07 period.

Chapter 3 – The indicators

Introduction

3.1 This chapter sets out proposals for the indicators which will make up the formula to be used in arriving at a regional split for the RHP for the years 2008 to 2011. Each indicator relates to the achievement of a key policy objective set by the Government (subject to the outcome of CSR07). For convenience, the indicators have been grouped under two main headings:

- affordable housing provision
- decent homes, regeneration and mixed communities.

3.2 Most of the indicators are based on the comparable indicators which formed the formula used in obtaining a regional split of the RHP for the years 2006-08. Therefore, for each indicator, as well as setting out the proposals for the 2008-11 formula, this paper identifies changes, if any, from the corresponding indicator in the 2006-08 formula together with the reasons for those changes.

3.3 More detail is provided in the technical note to this paper, including the distribution of each indicator across the Regions; the regional impact of any changes in comparison with the 2006-08 indicators; details of data sources; and, where possible and relevant, impacts on Black & Minority Ethnic groups (BME).

Questions for consultees

3.4 Questions specific to individual indicators are set out throughout this chapter against the relevant indicator where appropriate. In addition, **for each indicator, consultees' views on the following general points would be welcome:**

- **Does the indicator represent the best way of reflecting the policy outcome or output sought? If not, what alternatives provide a better match?**
- **Would the indicator create any perverse incentives? If so, what measures could be taken to counter these incentives?**
- **Does this indicator have the potential to unfairly skew funding away from either a specific Region or sector of the community? If so, how can this be rectified?**

3.5 **Consultees will wish to note that nothing should be inferred from this paper as to the final regional split of the RHP for the years 2008-11. That will only be possible after the weightings for each indicator within the overall formula have been finalised once the outcome of CSR07 is known. It is also possible that additional indicators may be included as a result of the CSR07 outcome.**

Affordable housing provision

Proposals

3.6 We propose to use five different indicators to reflect affordable housing need and housing affordability pressures :

- homeless households in temporary accommodation
- overcrowded, sharing and concealed households
- ratio of lower quartile house prices to lower quartile earnings
- additional affordable housing due to growth in specific areas
- numbers of unemployed or economically inactive households.

Comparison with 2006-08 indicators

3.7 The first four of these indicators are closely related to the corresponding indicators used in the 2006-08 formula. Proposed changes are set out below along with the thinking behind them. The final indicator is entirely new. It is discussed at the end of this section :

- **homeless households in temporary accommodation** – this is a key indicator of social housing need. For 2008-11, it is proposed to use annual data (as at 31 March 2006) rather than the three year averages used in the past. Significant changes in the distribution of households in temporary accommodation over recent years point to the need for an indicator that better reflects recent changes and which is more responsive overall. The proposal to use data from the year ending 31 March 2006 is intended to avoid perverse incentives arising from this change
- options for incorporating some measure of local authority performance within the indicator were explored but were found to have little impact across whole Regions. Regional Assemblies may wish to consider the impact of the performance of individual local authorities on this indicator within their Region in making recommendations to Ministers as to the spatial distribution of new affordable housing.
- **overcrowded, sharing and concealed households** – another key indicator, this time of both social and intermediate housing need. This indicator is made up of separate elements reflecting the incidence of overcrowded households, sharing households and concealed families. For 2008-11, the overcrowded households element is based on ‘basic’ overcrowding data only rather than that for ‘basic’ and ‘severe’ overcrowding used previously. Since the 2006-08 formula was finalised, concerns have emerged about the sample size used to underpin the severe overcrowding data. Given that use of the data also appears to have little impact on the overall regional distribution, it was thought wise to drop the data from this element of the indicator.

Each element will be given a weighting within the overall indicator. For 2008-11 the weightings have yet to be decided but, we are considering the option of giving a reduced weighting to the sharing households and concealed families elements of the indicator. Again, this reflects a refocusing of policy in this area and newly identified concerns about the data used for these elements centring on the data used to gauge preferences.

Consultees' views are sought on the weightings to be used for each element of this indicator.

- **Ratio of lower quartile house prices to lower quartile earnings** – this is a key indicator of the pressures on affordable housing supply which arise from low affordability of housing in the market. The indicator is unchanged from that used for 2006-08. In particular, the possibility of using place of residence data rather than workplace data was considered. However, it was decided to continue to use workplace data given the better quality of the data and the fact that workplace data gives a better picture of unaffordability of housing close to the workplace. This is particularly important in picking up issues around the affordability of housing in rural areas. Consideration was also given to changes to the threshold for the ratio used in assessing relative need. Exemplifications of changes to the threshold suggested quite lumpy effects on the regional distribution of need so the proposed indicator uses the same threshold as for 2006-08.

Consultees' views are sought on the use of a different threshold in this indicator.

- **Additional affordable housing due to housing growth in specific areas** – this indicator is designed to reflect the additional affordable housing which will be built as a result of commitments by local authorities to additional growth in their area. The corresponding indicator for 2006-08 picked up additional affordable housing associated with the 4 Growth Areas:
 - Thames Gateway
 - London/Stansted/Cambridge/Peterborough
 - Milton Keynes/South Midlands
 - Ashford in Kent.

For 2008-11, it is proposed that the same methodology for the calculation of the indicator should be used, but that it should be revised to reflect:

- additional growth in London outside Thames Gateway but contributing to the target first established in the Sustainable Communities Plan of an additional 200,000 new homes by 2016
- the 29 New Growth Points agreed in the wider South East and Midlands.

It is also proposed that the indicator should be adjusted to reflect, where possible, the phasing of growth (and, therefore, levels of affordable housing) as set out in the trajectories which have been established as part of the Regional Spatial Strategy (RSS) process for locations within some Growth Areas. Some of the data underpinning this indicator are yet to be finalised and it may be amended slightly to reflect changes between now and July 2007.

As for 2006-08, the indicator reflects the fact that additional affordable housing in these areas is intended to tackle housing pressures in other authorities in the wider South East in particular and, for some New Growth Points, other adjoining Regions alongside local needs. When the indicator was first introduced for 2006-08, the mechanisms for allowing this to happen had not been fully developed. However, the introduction of Choice Based Letting across England has provided a means by which other local authorities could have access to a proportion of the new affordable housing built as part of a Growth Area or New Growth Point. The details of how arrangements of this sort could be implemented are still to be worked through and will need to reflect local circumstances (in particular where a New Growth Point has been developed exclusively to meet locally arising need), but Ministers are considering the general proposition that a proportion of the new affordable housing built in Growth Areas and New Growth Points and reflected in this indicator should be made available to local authorities in the wider South East and other areas facing severe housing pressures through a Choice Based Lettings agreement.

Consultees' views are sought on the general principles associated with this proposal.

- **Numbers of unemployed or economically inactive households** – the proposal to add this indicator to those outlined above reflects concerns that existing indicators do not fully reflect the needs of those (excluding retired households) who are unemployed or economically inactive but do not live in areas of high homelessness or overcrowding. The indicator is still under development and is likely to be linked to levels of available new lets in the social rented sector. Both these characteristics are modelled separately in the technical note to this paper.

Consultees' views are sought as to how the economically inactive can best be reflected by an indicator of this sort.

Decent homes, regeneration and mixed communities

Proposals

3.8 It is proposed to use five different indicators to reflect need for investment in decent homes, regeneration and the establishment of mixed communities :

- Local Authority Stock Condition Index (LASCI)
- Housing Association Repairs and Re-improvement (HARR)
- Private Sector Stock Condition Index (PSSCI)
- regeneration
- mixed communities

Comparison with 2006-08 indicators

3.9 The first four of these indicators are closely related to corresponding indicators used in the 2006-08 formula. Proposals for detailed refinements are outlined below:

- **LASCI** – this indicator is used to provide a measure of the relative need for funding to support decent homes activity carried out on local authority stock. For 2006-08, the indicator was based wholly on historic spend by local authorities. Since then, all local authority Option Appraisals – which provide a clear indicator of actual spend by local authorities on their own stock – have been signed off. It is, therefore, proposed that a composite indicator be used, in place of the 2006-08 one, drawing on historic spend, data from the Option Appraisal process and a needs based measure reflecting the number of local authority owned homes below the decent homes standard in the Region. The combination of these three measures is intended to counteract perverse incentives which might accompany them if used singly
- **HARR** – this is used as a measure of the need to spend to bring RSL stock which was built before 1989 and is eligible for major repairs funding up to the decent homes standard. It is proposed to simplify the indicator in comparison with that for 2006-08. In order to improve its transparency, it will contain only unweighted historic data on repairs and re-improvements in RSL stock with no additional cost comparison
- **PSSCI** – this indicator is used to reflect the need for decent homes activity in the private sector. We propose to leave this indicator broadly unchanged from the 2006-08 version. The exceptions are the use of updated data (2003 English Housing Condition Survey data replacing that from 2001) and the removal of specific cost compensation data from the indicator to reflect emerging concerns about the quality of the data. Cost compensation will be applied across the whole formula (see para 3.11 below)
- **Regeneration** – this indicator reflects the relative levels of multiple deprivation across the Regions in line with the Government commitment to tackle social exclusion and neighbourhood renewal, focussing especially on issues in deprived areas. There is no proposed change to this indicator apart from, again, an updating of data to reflect improved Census data

3.10 Ministers are also exploring the possibility of adding a new indicator to this section in order to reflect their commitment to creating and supporting **mixed communities**. Currently no firm view has been taken on the form of such an indicator or whether it is appropriate to include it within indicators which determine the division of the RHP.

Consultees' views are sought on whether a mixed communities indicator should be included in the formula and, if so, what form it should take.

Cost compensation

3.11 Cost compensation factors will be applied across the whole formula to reflect variations in the costs of repairs and new housing provision across England. The methodology and data used for this process will be the same as that used for the 2006-08 formula.

Chapter 4 – This consultation

- 4.1 This paper has been circulated to key regional organisations, including the Regional Assemblies, all local housing authorities and RSLs in England and a range of other specialist interests. The paper has been circulated electronically and is available on the DCLG website. Hard copies can be obtained by contacting the address below.
- 4.2 This consultation is a limited technical consultation rather than a full public one. For this reason a Regulatory Impact Assessment has not been undertaken at this stage. Early indicators are that the proposals in this paper will not impose any additional burdens on local government, business or the voluntary sector.
- 4.3 As this paper only consults on the indicators that it is proposed will form the formula for arriving at a regional split of the RHP, it is not possible at this stage to assess fully the impact on BME and other minority groups. Therefore, a Race Equality Impact Assessment is not attached to this paper. One will be prepared as part of our proposed consultation on the whole formula during Summer 2007. In the meantime, the Technical Note to this paper sets out for each proposed indicator a very initial assessment of its possible impact on BME groups where appropriate and where adequate data is available. It is anticipated that the aggregate impact on BME and other minority groups of these indicators will be positive.
- 4.4 Comments on the proposals in this paper should be provided by **Friday, 16 February 2007**. They should be sent, preferably by e-mail, to

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- 4.5 Please indicate if you do not want your comments to be made public. (An automatic confidentiality disclaimer generated by your organisation's IT system will not be respected unless you specifically include a request in the main text of your response).
- 4.6 A summary of the responses to this consultation paper will be available on the Communities and Local Government website within 3 months of the end of the consultation period. Copies will also be available from the address above.
- 4.7 The code of practice adopted by Government for consultation exercises does not apply to this consultation because of its limited and technical nature. However, where at all possible, the code has been followed in developing this paper. Details of the code of practice are at **Annex A** to this paper.

Annex A – Consultation code of practice

The Government has adopted a code of practice on public consultations. While the code does not apply to this limited technical consultation, this paper, nevertheless, aims to follow the code criteria set out below where possible.

- 1. Consult widely throughout the process, allowing a minimum of 12 weeks for written consultation at least once during the development of the policy.**
- 2. Be clear about what your proposals are, who may be affected, what questions are being asked and the timescale for responses.**
- 3. Ensure that your consultation is clear, concise and widely accessible.**
- 4. Give feedback regarding the responses received and how the consultation process influenced policy.**
- 5. Monitor your department's effectiveness at consultation, including through the use of a designated consultation co-ordinator.**
- 6. Ensure your consultation follows better regulation best practice, including carrying out a Regulatory Impact Assessment if appropriate.**

The full consultation code may be viewed at www.cabinet-office.gov.uk/regulation/code.htm.