

Housing

February 2007



The future regulation of housing

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Executive summary

- 1 This paper is the response from the Audit Commission to the call for evidence from Professor Martin Cave in connection with his review of regulation across the housing sector, being undertaken at the request of the Department for Communities and Local Government (CLG).
- 2 For the purposes of this submission the Commission will use the term ‘community housing’ to cover the domain which falls within the Cave Review’s terms of reference and the term ‘customers’ to define those who use and pay for accommodation and services. The Commission believes that the Cave Review should focus on the provision of community housing which is assisted by the state across the whole domain, whether that is provided by private companies, housing associations, arm’s length management organisations (ALMOs), local authorities or other institutions.
- 3 The Commission has attempted to reflect the setting in which any housing regulatory framework will sit by the time it is implemented rather than focusing solely on the present. This new regulatory framework will sit in a public policy setting which in the next two years, will be shaped by:
 - The development of the form and function of local government following the Lyons Review for the Treasury, the Local Government White Paper and the enactment of a Local Government and Public Involvement in Health Bill.
 - The changing nature of the relationship between the centre and the regions, and the regions and local areas. This will lead to fewer national priorities and more weight being given to local priorities, thereby strengthening local accountability. The emergence of the neighbourhood voice in relation to local services will reinforce the local agenda.
 - The impact of the Comprehensive Spending Review 2007 which will tighten finances and demand better value for money across all delivery chains as well as reshape some aspects of national policy.
 - Public services will be delivered increasingly through a diverse set of arrangements and bodies that will include public, private and not-for-profit organisations.
 - The more coordinated and consolidated approach to the assessment of public services – currently being pursued in the Health and Adult Care, Education and Young People, and Local Services sectors. These deregulatory moves will see the Audit Commission

acting as the inspectorate for local services. All relationships between these regulatory bodies will be on a statutory footing; and all will have a duty to cooperate.

- 4 In the Local Government White Paper the government has acknowledged the importance of place. In setting out the scope of the Cave Review the government has painted a broad picture of the regulatory coverage it wishes to be considered for community housing. Any resulting framework for housing regulation will also need to reflect the local nature of the housing market where influences, effects and pressures flow across administrative boundaries. It will also need to feed into, and be supported by, the new Comprehensive Area Assessment (CAA) if the regulatory arrangements are to be clear, efficient and effective in securing the outcomes set out in the Cave call for evidence.
- 5 To deliver the two principal requirements of the Cave Review:
 - high-quality, value for money services for residents; and
 - proper assurance for taxpayers;

and to set the direction of travel for a market approach to regulation, the Commission believes that the key objectives for the government to secure through its new framework are:

Improving outcomes for customers

Community housing should be used for its intended purpose, maintained to a good standard, with high standards of service to occupiers. Housing organisations should provide for increased choice to customers and should be highly accountable to them.

Improving places

Community housing organisations should actively contribute to the social, economic and environmental well-being of neighbourhoods in which they have an interest, and to that of the residents who live in those neighbourhoods.

Improving value for money

Community housing organisations should be economic, efficient and effective in using resources to obtain maximum value for money and to secure private investment at competitive rates.

This can be achieved by a regulatory framework that is proportionate to risk, scale and performance

- 6 The Commission believes there is scope for a more strategic approach to the regulation of community housing. This includes a more focused use of inspection, including:
 - no rolling programmes, any inspection to be risk based and triggered by causes for concern; and
 - stronger relationships between inspection outcomes and other regulatory interventions and sanctions.

- 7 We believe it is essential that the role played by the customers of community housing is strengthened. They could:
 - trigger inspections through complaints;
 - be given collective power to change the management, and ultimately the ownership of stock, to another provider – facilitated by the regulator;
 - be more closely involved in shaping services and selecting service providers;
 - have a national champion in the form of a consumer panel that can hold the regulator to account; and
 - have a power which is the equivalent of the community calls for action requiring a public response to their expressed concerns.

- 8 These arrangements would be part of a clearer framework of regulation in which:
 - the regulator is independent of both government and community housing organisations, and of any other bodies that might give rise to a conflict of interest;
 - external auditors should be required to comment on value for money;
 - the regulator should be given responsibility to comment, independently, on the cost of implementing passported policies by government;
 - the regulator should have the same power to intervene as the Housing Corporation (HC) does now and recommend intervention by the Secretary of State in local authorities;
 - community housing organisations providing good services should have significantly less oversight, with regulatory arrangements being more bespoke to their business needs;
 - the regulator should have a gatekeeper role over information requirements; and
 - there should be a review of rent-setting arrangements.

1

Introduction

- 9 Professor Martin Cave has asked for evidence on the future of regulation to help him in his review of the housing sector for CLG. This paper is the Audit Commission's response.
- 10 Since the announcement of the regulation review, it has also been announced that the development functions of the HC and English Partnerships (EP) are to be merged within a single body to be called Communities England. This new body is important to the context of the review. Other important elements of the context include John Hills' current review of social housing and the Local Government White Paper published by CLG in October 2006.
- 11 The Hills Review is currently considering the future of community housing, potentially this involves a wider mix of arrangements, some of which may not guarantee long-term security of tenure. This is likely to build on the existing trend for a more diverse community housing sector, with both the development and management of community housing being entrusted to a wider range of bodies than registered social landlords or local authorities. The Local Government White Paper sets out a vision for local authorities as place shapers, with a clear leadership role in bringing together the many different agencies operating at the local level. Their role is also to harness the efforts of all the agencies to build stronger, more sustainable communities and, where appropriate, hold those bodies to account. The outcomes from the Cave Review will need to connect to both of these developments.
- 12 This response also builds on the work of the Elton Review and the discussions between CLG, the HC, EP and the Audit Commission that took place in the Regulation Working Group established soon after the original review of HC and EP was announced in April 2006. A major task for the working group was to examine the approach to regulation in other sectors, and assess how far other models could be applied to the housing sector. We consider this examination to be a useful starting point. The community housing sector tends to regard itself as unique, but in our view its distinctive characteristics can be found to varying degrees in other sectors, from which there is much to learn.
- 13 We have also had regard to the other reviews and commentaries on the current framework of housing published in the past year. The Elton Review focused on the helpful streamlining of the current regulatory arrangements for housing associations. In addition there have been broader reports, specifically *The Future of Regulation of Affordable*

Housing produced by the Chartered Institute of Housing and Cranfield School of Management, which was funded by the HC; and *Letting Go* by Campbell Tickell, which was funded by the National Housing Federation. These, together with other reviews such as the Elton Review, and the work commissioned by the HC on the costs and benefits of regulation in the housing association sector have all been very much provider focused. The Cave Review offers a chance to be more customer focused, to think more widely, more radically and for the longer term.

- 14 We have also used the knowledge we have gained through our work in housing, where we are the statutory inspector of the housing services provided by housing associations and ALMOs (where we effectively grant their license to trade), as well as the housing, regeneration and planning functions of local authorities and the Supporting People regime. These roles, together with the assessment of Market Renewal Pathfinders, the use of our studies powers to secure improvements in the economy, efficiency and effectiveness of housing organisations and our auditing arrangements for local authorities, including the certification for government of the housing benefit grant to authorities, put the Commission in a significant regulatory role in a wide range of aspects of housing and housing service provision. In this context the Commission also has the power to recommend intervention by the Secretary of State in a failing local authority. (Further information on the work of the Commission is set out in the **Appendix**.)
- 15 In this response we have tried to reflect the setting in which any housing regulatory framework will sit by the time it is implemented, that is 2009/10 and beyond, rather than focusing solely on the present. We have also taken into account the broader housing market in which community housing needs to operate.

2

The regulatory environment for public services

- 16 The government is committed to reducing the level and cost of regulation across all public services, but where regulation does apply, it must add value. The Cave Review needs to be seen in the context of the work of the Better Regulation Executive and its predecessors, of the Cabinet Committee on Regulation and Bureaucracy, and of the reviews of regulation that have recently taken place or are in progress in other sectors. In recent months, the Audit Commission has been actively involved in the review of the performance management framework for local government, the review of the regulation of health and social care by the Department of Health (DH), the development of a new performance framework for policing and community safety, and the creation of the new Local Authority Better Regulation Office.
- 17 We have considerable experience of different approaches to the regulation of public services and have been deeply involved in the debate about it over recent years. We have set out our contributions to this debate in various documents, including our responses to government consultations on the regulation of other sectors, and in evidence or presentations to various select committees. However, the key documents setting out our thinking about the wider issues were published in March and August 2006 under the titles *The Future of Regulation in the Public Sector* and *Assessment of Local Services Beyond 2008*. Copies of both are attached with this response, as the review will need to keep this broader context in mind in fulfilling the requirements it has been given to:
- establish a clear set of objectives for the regulation of social housing to underpin any new regulatory system;
 - present a limited number of options for reform of the regulatory system with a full assessment of the pros and cons of each;
 - make a clear recommendation for a preferred option for a reformed regulatory system and describe how that regulatory system would operate in practice, including its detailed legal and financial implications; and
 - allocate regulatory roles / make recommendations as to the institutional arrangements that would best support such a system.

- 18 Our examination of regulation in other sectors shows there is no consistent approach that points to what should happen in housing. However, the Cave Review will need to take several strategic matters into account.
- 19 The review must consider the relationship between government's role as policy maker and the regulatory framework. In housing, as in higher education and some other sectors, government pursues some policy goals through regulatory frameworks. It uses regulation to make the granting of money or licences to trade dependent on fulfilling these goals. Clarifying this relationship will help to establish the credibility of the regulatory framework.
- 20 Rent setting – the equivalent of price control in other sectors and often fundamental to regulatory frameworks – is currently overseen by government. However, in other sectors the regulator commonly manages price control, especially where there is a mixed economy. In housing, because of the direct spending implications through housing benefit for the Department for Work and Pensions, and concerns for affordability, government may want to retain the current arrangements. Before doing so we would suggest that government reflects on how pricing signals work in other markets, can stimulate choice and drive performance, and over a longer period influence the cost of finance.
- 21 Understandably, the terms of reference exclude consideration of the private rented market. However, as the provision of what is termed social housing develops into a broader mix of provision there may be an argument for looking at how this segment of the market should be developed to contribute fully to satisfying demand. We know tenants do move between different areas of the rented sector, when and where this is an option, as part of their range of choices. This broader consideration would also need to reflect on the impact of the implementation of the relevant parts of the Housing Act 2004 on this part of the market.
- 22 The move into the provision and management of community housing by private companies does raise issues of the reach of regulation given that these companies' overall business is likely to extend well beyond this area of focus. It is clearly right that they should be included within the regulatory framework, but that the arrangements will need to reflect their different status, contrasting as it does with the independent not-for-profit status of housing associations, and the democratically accountable, public sector provision through local authorities and their ALMOs.

- 23** The other clear message from other fields of regulation is the requirement that regulated bodies pursue the application of private sector disciplines with full and appropriate business planning arrangements linked to ongoing risk management, leadership of, and challenge to executives by boards and a strong awareness of shareholder and stakeholder interests. This needs to also be the case in housing where the regulatory framework needs to operate in a fashion which encourages and acknowledges ambition and achievement and strong resilient organisations which take their responsibilities seriously. This argues for less checking of compliance with minimum standards and suggests a more open system which expects enhanced accountability, more self-declaration of standards and performance, better financial and information management leading to clearer rewards. The new regulatory framework also needs to enhance the role of customers supporting them and harnessing the pressure they can generate to bring about improvement and choice.
- 24** Government will want to consider how much power both it and the regulator should exercise. This will determine how government sees the relationship between the regulator and the providers, and between the regulator and government.

3

The future context for public service delivery

- 25 The government is pressing on with its reform agenda for public services. Over the next two years we believe that future policy and its delivery will be shaped by the following factors:
- The development of the form and function of local government following the Lyons Review for the Treasury, the Local Government White Paper and the enactment of a Local Government and Public Involvement in Health Bill.
 - The changing nature of the relationship between the centre and the regions, and the regions and local areas. This will lead to fewer national requirements and more weight being given to local priorities, thereby strengthening local accountability. The emergence of the neighbourhood voice in relation to local services will reinforce the local agenda.
 - The impact of the Comprehensive Spending Review 2007 which will tighten finances and demand better value for money across all delivery chains as well as reshape some aspects of national policy.
 - Public services will be delivered increasingly through a diverse set of arrangements and bodies that will include public, private and not-for-profit organisations.
 - The more coordinated and consolidated approach to the assessment of public services – currently being pursued in the Health and Adult Care, Education and Young People, and Local Services sectors. These deregulatory moves will see the Audit Commission acting as the inspectorate for local services. All relationships between these regulatory bodies will be on a statutory footing; and all will have a duty to cooperate.
- 26 These and other changes will affect the housing sector. The nature of the housing sector itself will also change. By 2009 we expect the following:
- Coordinating the provision of infrastructure in areas of growth will be a key consideration for Communities England.
 - Housing association mergers will continue, particularly within the top 200, as they apply economies of scale to improve efficiency which they can translate into business growth through new development or diversification.

- The Housing Benefit system, which currently contributes some 60 per cent of the rental income of all social landlords and thereby underpins the revenue stream to support private borrowing by housing associations, will be subject to inspection and assessment by the Commission.
- High-performing local authorities, with their ALMOs where applicable, will have greater say over their own futures and will be directly contributing to the supply of new community housing where it is needed. They will also plan longer-term regeneration programmes for the stock which, though decent, has a limited life.
- The decent homes programme in the community housing sector will be nearly complete; though in some places will continue to 2012 and possibly beyond. However, achieving the target for the private sector, which is not so clearly defined, will need further work.
- Rent convergence will have come closer to reaching the 2012 target.
- Developers will increase their market share of the affordable housing programme.
- Specialisation will increase within housing management and associated services.
- The demand for housing will continue to outstrip supply in many areas of the country. Affordability will be a concern for even more households, and housing will be a key topic at the next election.
- Homelessness will still be a key concern.
- The influx of migrant workers in town and country will strongly affect housing demand; this will be better understood and will require a more direct response.
- The planning system will have been partly re-engineered with the introduction of the Planning Gain Supplement and the Growth Points approach will start to have an impact.

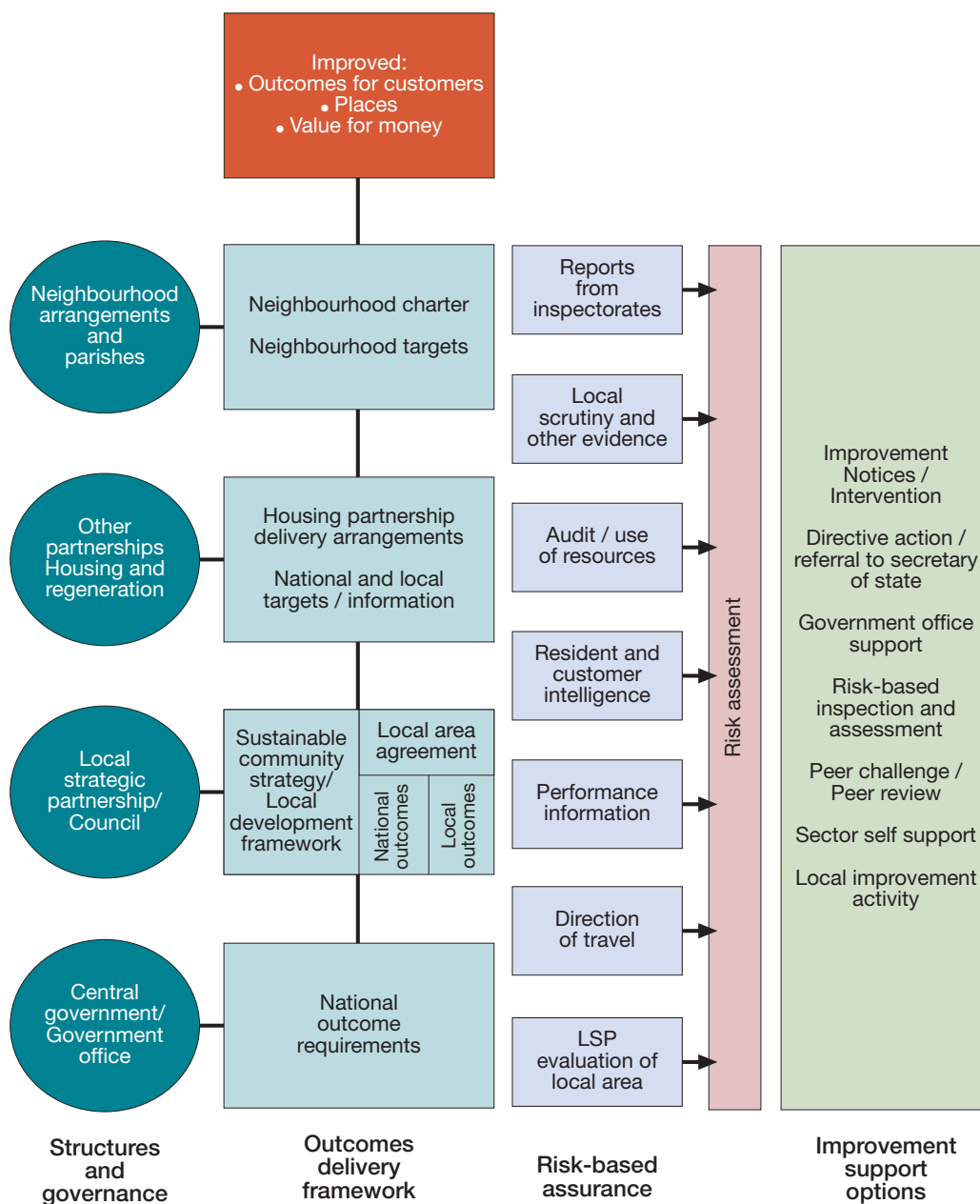
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The strategic regulation of places

- 27 The publication of the Local Government White Paper represents the culmination of a debate between government, local public services providers and other stakeholders. Local government, working increasingly effectively with its partners, is to be charged with the leadership responsibility for securing the delivery of better outcomes for local people and better places for their communities. The Commission is determined that the assessment framework that we are being asked to develop with other inspectorates by government must support the achievement of those better outcomes and better places, while reducing the number of rolling programmes of inspection.
- 28 Comprehensive Area Assessment (CAA) is central to these proposals, and the provision of quality housing, and related housing services, is central to making an area successful, and therefore will need to be fully reflected in how CAA is developed. The new performance framework will include:
- securing a more risk-based, independent external challenge, replacing Comprehensive Performance Assessment (CPA), Joint Area Reviews, annual performance assessment and social care star ratings with a single, jointly produced, annual risk assessment identifying key risks to outcomes or delivery for each area;
 - delivering an annual scored use of resources judgement for local public sector bodies and an annual scored direction of travel judgement which assesses the progress of each local authority in driving continuous improvement;
 - targeting any inspection activity primarily on the basis of the risk assessment, with the Commission operating as gatekeeper for all inspection activity affecting local authorities;
 - supporting improvement and responding to poor performance by ensuring greater sector and partner-led improvement support, and taking decisive coordinated action where poor performance threatens delivery; and
 - introducing improvement notices which provide a simple and quick method for government to require changes where there is unacceptable performance.

- 29** There will be an increasing emphasis on the role of the local strategic partnership (LSP) encompassing all the main service commissioners and providers in an area. Each LSP will be responsible for developing and publishing a Sustainable Community Strategy and a complementary Local Development Framework. Both are key to the provision of housing in an area. In taking this forward the CAA will want to explore the following in respect of housing:
- How well does the LSP understand and assess the housing needs of its communities, now and in the future?
 - How well does it use this understanding to inform its local housing priorities, alongside relevant national priorities?
 - How well organised are the local housing providers and how well can they plan and marshal resources to deliver these priorities?
 - How effective are the providers' arrangements to identify and manage the risks to achieving priority outcomes?
- 30** This overall strategic approach has at its heart the concept of risk, its identification and its management. The approach will need to focus on the unique features of each place as well as matters that are common to all. The diagram overleaf provides an early indication of the approach currently being developed.
- The risk assessment will primarily focus on the risks to achieving priority outcomes in an area, including housing where appropriate, it will therefore be forward-looking rather than only reporting on past performance.
 - Greater reliance will be placed on the information used by local partners to manage performance.
 - There will be a stronger focus on how well agencies engage with citizens and service users.
 - All regulatory activity will need to be fully coordinated.

Figure 1
Comprehensive Area Assessment – the new strategic framework



- 31 Government still needs to work out how the new role of local authorities, as set out in the Local Government White Paper, fits with the housing role of government offices, regional planning and housing board arrangements and the regional economic strategies produced by the regional development agencies.
- 32 Communities England, which will be charged with bringing together functions currently within EP, HC and CLG, will allow a clearer national focus. The new body will want to work locally to secure the added value that Ministers require.
- 33 Through our market renewal work, we have seen the progress that can be made in understanding local housing markets when local authorities work effectively with each other, and other partners, on matters of market intelligence and strategic intervention. All authorities should consider aiming for cross-boundary cooperation and action as seen in places like Manchester and Salford.
- 34 In the Local Government White Paper the government has acknowledged the importance of place. In setting out the scope of the Cave Review the government has painted a broader picture of the regulatory coverage it wishes to be considered. Any resulting framework for housing regulation will need to reflect the local nature of the housing market where influences, effects and pressures flow across administrative boundaries. The framework will also need to feed into, and be supported by, CAA if regulation is to be clear, efficient and effective in securing the outcomes set out in the call for evidence to the Cave Review.

5

The strategic regulation of housing

- 35** With the Local Government White Paper setting out the context for a local strategic approach to housing, which can operate across boundaries where appropriate, how would that approach relate to what is currently termed the social housing sector? Indeed, what is social or community housing?
- 36** Community housing can be broadly defined as housing that has been bought, built or maintained using some state funding. For local authorities this would have generally been in the form of loan finance, some of which would have been subsidised. For housing associations this would have been mainly through capital grants (currently Social Housing Grant) or Section 106 agreements. In the future, state assistance will be available to a wider group of institutions, since one of the prime purposes of Communities England is to procure future new housing through all sectors.
- 37** The proposed Rented Homes Bill, now being considered by government after its preparation by the Law Commission, proposes to modernise tenancy arrangements across the whole rented sector. For tenancies created by local authorities and housing associations, and potentially other providers, it proposes a new singular form of tenancy, termed a secure contract, across the whole of what it labels ‘the Community Housing sector’. For the purposes of this response we will use the term ‘community housing’ to cover the whole domain that falls within the Cave Review’s terms of reference.
- 38** We believe that the Cave Review should focus on the provision of community housing that is assisted by the state, whether provided by private companies, housing associations, ALMOs, local authorities or other institutions. In the next few years this list of providers could include Community Interest Companies, Urban Regeneration Companies and new cross-sectoral joint-venture vehicles. The regulatory framework needs to plan for these developments.

Key aspects of a new regulatory regime

- 39** Public service regulation is changing, with pressure to reduce its cost and volume. However, there are also some powerful pressures to minimise risk. A risk-assessment approach is the accepted way forward, but a key question is: whose risk is being assessed? In public services, regulation should not focus too narrowly on the provider and provider risk and needs to consider the risks to customers. Within sectors operating in a more mature and effective market, customers and their requirements should take centre stage.

- 40 For a market to operate, it needs informed and empowered customers. There is a danger that although regulators increasingly act in the name of customers, they may not fully understand them. In particular, they can overlook their diversity and their different experiences. And assessment systems can deter people from taking risks, especially if incentives for risk taking are insufficient.
- 41 The Cave Review presents an opportunity to establish a regulatory framework that looks at the community housing domain increasingly as a market. Such an approach will take time to establish itself and to support far more active customers, whether they are tenants, shared owners or leaseholders. With customer power, people benefit from competition as well as initiating and sustaining it.
- 42 To deliver the two main aims of the Cave Review:
- to secure for social housing residents high-quality, value for money services; and
 - to secure for taxpayers proper assurance;

and to plan for a market approach to regulation, we believe that the government should set the following key objectives for its new framework:

Improving outcomes for customers

- Community housing should be used for its intended purpose and should be maintained to a good standard for use and occupation unless there are explicit plans for an alternative use, conversion, demolition, regeneration or sale.
- Services to occupiers should be of a high standard, supported by a determination to achieve continuous improvement.
- Housing organisations should provide for increased customer choice.
- Every housing organisation should provide for a high degree of customer involvement and should be highly accountable to customers.

This is to be achieved by:

- ensuring that standards of housing service have been set in line with local or national requirements, and are actually being met;
- promoting accountability by exposing service failure or other causes of concern and publishing other information about service performance;

- driving continuous improvement by challenging commissioners and providers of housing services on the cost and quality of those services;
- informing and developing choice by enabling customers to compare different providers of services and allowing more competition in service provision;
- preventing distortion of competition by commenting on the accuracy of statements that service providers make about themselves; and
- offsetting monopoly provision of housing services acceptable, where this exists, by overseeing arrangements for handling complaints.

Improving places

- Community housing organisations should actively contribute to the social, economic and environmental well-being of neighbourhoods in which they have an interest, and to that of the residents who live in those neighbourhoods.

This is to be achieved by:

- encouraging community housing organisations, as key partners, to support local authorities to fulfil their place-shaping responsibilities; and
- requiring cooperation and collaboration at a local level to make sure housing markets respond to local need.

Improving value for money

- Housing organisations should be economic, efficient and effective in using resources to obtain maximum value for money.
- Private investment should continue to be secured at competitive rates.

This is to be achieved by:

- promoting good governance, good use of information and transparent decision making in bodies that are entrusted with spending public money and need to retain public trust;
- verifying that taxpayers' money has been spent for the purposes intended; and
- reducing pressure on rents by assessing value for money and taking action where appropriate.

Through a regulatory framework that is proportionate to risk, scale and performance and that:

- is designed to incentivise service delivery performance and deal with poor performance;
- provides for the needs of future customers;
- supports housing organisations to be innovative in securing the objectives of the regulatory framework;
- reduces regulatory oversight for those organisations which deliver quality services accompanied by robust business management; and
- reduces the costs of regulation to providers and is explicit about the benefits to customers.

and which:

- wherever possible, uses the business management arrangements of individual housing organisations and does not replicate them;
- allows for a diverse range of suppliers, with different legal structures;
- establishes a range of sanctions culminating in direct intervention;
- is risk aware, not risk averse; and
- does not support or give an advantage to any particular organisational model nor does it create any conflicts of interest that would compromise its standing as a regulatory framework.

43 This section has established a framework of objectives. The following sections take each objective in turn and consider how to implement it.

6

Improving outcomes for customers

Quality of service

- 44 Local context is important and should be taken into account. But overall consistency is also needed in assessing service quality, given that:
- the national rent-setting system fixes rents consistently in a locality;
 - the Law Commission has proposed a single form of tenancy for community housing as set out in its Rented Homes Bill;
 - local authority landlords, housing associations and ALMOs all make a similar core offer to customers;
 - links between councils and housing associations continue where there has been a stock transfer;
 - the relationship between council housing and ALMOs is ongoing.
- 45 We believe that the approach we have developed through our key lines of enquiry (KLOE) provides a sound basis for a consistent framework for assessing service quality without over-specifying the final delivery arrangements, so allowing room for innovation and local approaches. Developing this framework would be an appropriate way forward. It should be extended to cover tenant services provided by private companies who hold community housing funded by government through the HC.
- 46 We think that by 2009 inspections will reduce overall and will continue to focus on what matters to customers. This will reflect the direction of travel recognised and supported in the Elton Review specifically in relation to the inspection of housing associations. But the requirement for public services to continuously improve will not diminish and the Commission believes that the KLOE framework, updated and streamlined, will have an ongoing value as a standard setting and self-assessment framework. KLOEs can help housing organisations improve their service delivery through the use of the framework as a self-assessment tool.
- 47 We expect that the development of the inspection framework will:
- focus on elements of weakness in an organisation as well as on weak organisations;

- introduce short-notice inspections where this is appropriate or in response to an emerging crisis;
- refine the risk-assessment framework so that it considers the bespoke elements of an organisation's business and context as well as the use of standard comparative information; and
- need to be open to innovation and positive practice to ensure that there is learning across the sector.

Increasing housing choice

- 48 Unlike many public services, community housing has not been subject to the sort of marketplace forces – user choice and provider competition – that are being introduced into health, education and social care. But tenants are no different in their wish to have greater influence, as shown recently by the National Housing Federation's report, *What Tenants Want*.
- 49 The regulatory framework will increasingly need to focus on the interaction between customers and providers in local housing markets, rather than on provider institutions regardless of the location of their stock. A key factor in assessing the need for change in housing regulation is whether residents will get more choice. Few would oppose the idea of choice. Indeed, in many other social markets, it is becoming a key driver. In housing, the key questions are how to introduce more choice; how would providers respond; and how can the regulatory framework widen choice?
- 50 Choice is still not a common feature of community housing. Typically, providers struggle to offer customers effective choice when demand exceeds supply, and where the national rent-setting regime means market choice would have little consequence.
- 51 However, choice is present in some respects. Choice-based lettings where they have been introduced have proved successful. Tenants have some choices about transfers, especially when landlords tackling under-occupation try to achieve a tighter match between household and dwelling sizes. Choice may be offered over decoration schemes and in some places on large refurbishment projects. But choice is still very limited in comparison to the price-sensitive private market.

- 52** Collective choice by an estate or group of neighbouring tenants could be extended and, in time, include:
- choice of owner – tenants having a voice in the social ownership of their premises and the possibility of acquiring the freehold of their blocks or estate;
 - choice of manager – even where the ownership remains as it was, following poor past performance;
 - choice of property maintenance provider;
 - choice of estate services;
 - choice over self-ownership and management of the stock; and
 - choice over additional services (at a cost to the tenant).
- 53** If these wider, more strategic choices were made available to tenants, an immediate rush to exercise them would be unlikely. After the privatisation of the utilities there was little enthusiasm for switching supplier. However, two decades later consumers have learned how to operate the choices available to them, and choice is a much greater driver of performance in the market than it was initially. Many will use their choice to remain as they are. Residents who make conscious choices about where they live and whose services they receive are more likely to put down roots and give support to the future of their locality.
- 54** From the perspective of a would-be tenant it is difficult to see how the tenancy offer of one landlord differs from another. The regulatory framework needs to allow community housing landlords to develop niche characteristics so that tenants can choose among particular selling points from landlords in a locality. Where tenants can exercise choice over their provider, this will encourage providers to ensure tenant satisfaction. The need for regulation will diminish as tenants are increasingly able to use market choice to spur providers to better provision.
- 55** Until that happens, information on the quality of accommodation, rent and service-charge levels, the quality of service provision, and the rights and responsibilities of both tenants and landlords must be readily and consistently available for comparison at a local level. This public benchmarking will be key in informing tenants and their advocates and will engineer a degree of competition.

- 56 But current tenants are not the whole story. Some groups who need community housing cannot articulate their choices because they are vulnerable or hard to identify. Choice exercised by existing tenants might mean less choice for others.
- 57 Other regulatory systems try to give a voice to the invisible majority by including representatives on their governing bodies. Placing a consumer voice onto a board or committee is a good step, but such voices can easily be ignored or overwhelmed. A number of statutory regulators have appointed consumer panels to advise them (and to balance industry panels in their governance architecture). Those panels are made up of capable individuals responsible for speaking from the consumer point of view on the regulatory framework. They may not be personal consumers of the service in question, and may not represent all consumers, but they can explore and express opinions on behalf of those affected. The regulator is obliged to confer with the panel over its strategic approach. The panel has the right and capacity to raise issues with the regulator.
- 58 In community housing, some individuals or bodies are obvious candidates for such a role. Consumer panels would need to reflect the interests of everyone served by the housing provider network and ultimately served by the regulator. Consumer panel members must be able to speak on behalf of the homeless as well as current tenants and leaseholders. Consumer and advocacy bodies such as Shelter and the Citizens Advice Bureau could help to express this consumer voice.

Improving accountability

- 59 As housing is a central focus of everyone's life, housing providers should be accountable to the households they house or provide services to, and to local communities where they own property, and therefore have influence.
- 60 There are some excellent examples of:
- involving customers in shaping services;
 - including customers and their representatives as advisors;
 - tenants and leaseholders acting as board members and non-executive directors of housing associations and ALMOs;
 - involving customers in assessing the quality of housing services;

- flexible arrangements for communication, information, consultation and participation, which give customers some control; and
- responding positively to complaints.

However, this does not appear everywhere, and accountability to customers is patchy at best.

- 61 Our national study *Improving Services Through Resident Involvement* sets out a strong business case for user involvement. When done well, it promotes two-way understanding, enables local issues to be fully understood and dealt with, and ultimately secures better value for money. Closer working with customers also makes it easier to discuss priorities in the use of resources. Such positive dialogue leads to real and sustained improvements and an increase in mutual trust.
- 62 Although national arrangements exist for customer satisfaction surveys by local authorities and housing associations, these do not necessarily relate to the quality of services provided. They certainly can give a different picture to the one painted in *What Tenants Want* and findings from the Commission's inspections do show that very low customer expectations can give rise to relatively high levels of satisfaction. The regulatory framework needs to pay far more attention to this area of data collection and, without adding to what is already a considerable workload on housing organisations, consider how this can be enhanced to give both the organisation and the regulator more useful information.
- 63 In focusing on the actual experience of customers rather than on the services provided, the regulatory framework should also become far more sensitive to the complaints that customers and other stakeholders make about how their homes and services are managed.
- 64 Government should also consider how the regulatory framework can deal with complaints in general and in specific cases. In an increasingly diverse local market place it is important that, to get their voice heard, service users and their advocates are clear about the links between their landlord and:
- their service suppliers;
 - the local authority (which may be a regulatory body for matters such as housing conditions or anti-social behaviour as well as being a service supplier);

- ombudsman services (there are currently two ombudsman schemes covering housing services – the Local Government Ombudsman and the Independent Housing Ombudsman);
- the regulator; and
- the courts.

65 The Local Government White Paper advocates community calls for action as a way to make local services more accountable. Following this and a similar point made by the Elton Review we are exploring how housing inspections triggered by customers (whether locally or on an organisational basis) or customer-led assessments could be part of the inspection arrangements. Both have potential.

7

Improving places

- 66 As set out earlier we are considering how housing provision across a locality should be part of a strategic regulatory approach. It is important that individual organisations are fit for purpose, but community housing organisations also have a significant role in shaping places.

Contributing to the well-being of people and places

- 67 Housing organisations will have opportunities to play wider roles in their local communities depending on how they view their remit and on local pressures to take up these opportunities. The regulatory regime should support this approach but also test its impact and value. The attention that the regulatory framework gives to this should be proportionate to the risks faced, and the resources deployed by the housing organisation. Clearly, some of this broader activity would call for collaboration between regulators, as it would link to work such as the oversight of adult social care by the Commission for Social Care Inspection and the resettlement of offenders by Her Majesty's Inspector of Probation.

Collaboration at a local level

- 68 The common factor linking an increasingly diverse range of housing organisations is that community housing is mainly state commissioned. It is the state investment in this asset base that creates the public interest for the citizen, the taxpayer, government and Parliament. So a register of this property may be one way of clarifying and classifying the nature of community housing. The idea of a register is currently being pursued by CLG through the National Register of Social Housing, which is intended to include stock owned by housing associations, local authorities and others.
- 69 The development and upkeep of a national register could be the regulator's responsibility. Alternatively the register could be local; this would enable the strategic housing authority and its partners to have all relevant data close at hand, including:
- stock use and turnover;
 - links to housing benefit and rent levels; and

- information on ownership and management.
- 70** This local register could also include a record of how new and existing homes are allocated. It would build on the current national CORE system (COntinuous REcording of lettings and sales) for housing associations and the equivalent system being proposed by CLG for local authorities.
- 71** It would enable all interested partners to understand how community housing is used locally. This would contribute to their understanding of the local delivery chain and trends in the local housing market and would reinforce the need for collaboration at a local level.
- 72** Some providers' property will lie within a range of jurisdictions:
- specialist housing associations with a regional or national coverage;
 - housing associations which have grown, through development or merger and acquisition, and have regional or national coverage;
 - housing associations which are now a major development partner for an area where they have not managed property before; and
 - private developers moving into the provision of community housing for the first time.
- 73** All housing associations must already report nationally on their stock by local authority area as well as their allocation of tenancies. The locality-based approach would not represent a major change but would bring about a more relevant and practical local focus.
- 74** Although the KLOE framework would be applicable, based on risk, scale and performance, to all organisations that own community housing, it would be better if the regulatory framework could gain greater local collaboration.

Small housing associations

- 75 Most housing associations with fewer than 1,000 units focus on one locality. In some respects they do not need detailed supervision by a national regulatory system as they should be seen as a part of the local network of provision.
- 76 Their links with their local authority should be good, as they need to deal with housing benefit, nominations to tenancies, and Supporting People connections, and contribute to the local response to issues such as homelessness or anti-social behaviour. These small housing associations should only become the focus of any nationally directed inspection where there are specific concerns.
- 77 Small housing associations should liaise with their principal local authority, which could act as a contact point for local issues, including concerns from tenants (as they would deal with matters relating to other local agencies or businesses). The national regulator would respond to any self-referral, a referral from the local authority, an external auditor, another regulatory body, the appropriate registrar or a lender. In areas where the authority has a clear view of its housing role and policy, and partner agencies play their part effectively, much if not all of this local dialogue would already be in place.

ALMOs and voluntary transfer housing associations

- 78 Although these organisations may also focus mainly on one locality, the scale of their operation does require a national regulator to make an independent assessment of their work. This should take into account the views of the local authority and the LSP, given their specific and relevant roles and responsibilities, as well as of other stakeholders.
- 79 This approach would also recognise that both ALMOs and large scale voluntary transfer associations, if successful, would over time move into other localities or other lines of business.

Large housing associations

- 80 Clearly large housing associations should make a full, but proportionate, contribution to the places they have an interest in and much of their day-to-day activity will support local collaboration. Some places will be core to their business and the regulatory framework will need to focus on their performance in those areas and have a lighter touch where their business is marginal to both the place and the association.

Local authorities

- 81** We believe there is a need for appropriate external scrutiny of local authority housing services, especially given the strategic leadership role that each local authority will be expected to fulfil which covers an understanding of supply and demand issues, intervention in the private rented sector where justified, and tackling homelessness. As housing authorities, with or without landlord responsibilities, it is important that they are subject to the same proportionate scrutiny as other housing organisations.

Private companies

- 82** Private companies that provide community housing should be treated in an even-handed fashion by the regulatory framework in respect of their contribution to places where they have stock.

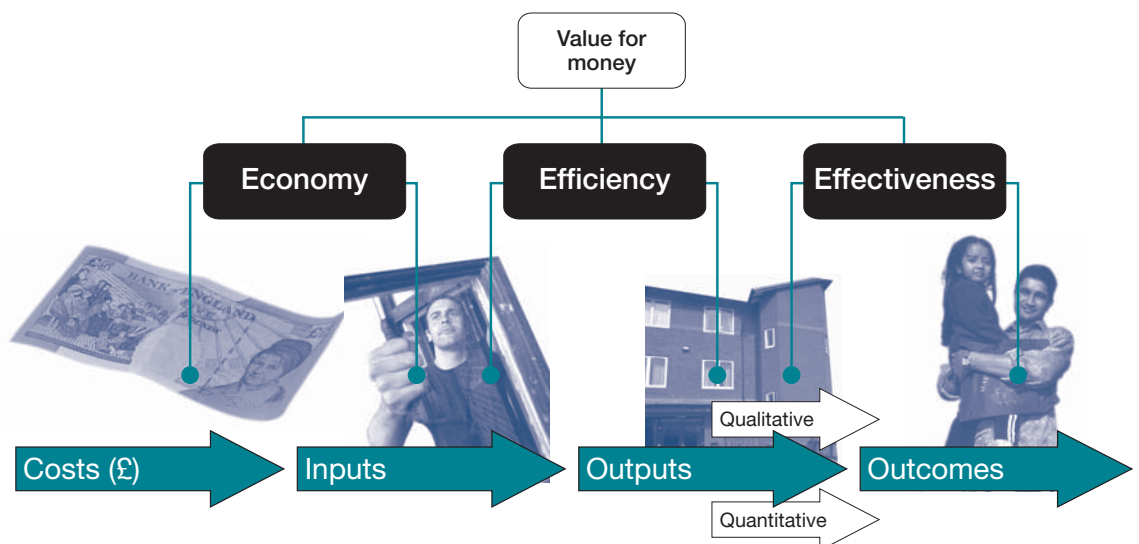
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Improving value for money

- 83** Given the scarcity of resources, the regulatory framework needs to address ways to help the housing sector achieve better value for money. The Comprehensive Spending Review is likely to expect greater efficiency across all sectors. This must be translated into better results.
- 84** As the value for money model in **Figure 2** shows, it is important that economy and efficiency work for a purpose. As explained earlier, this purpose is to make services more effective and improve outcomes for customers and reduce pressure on rents. This also facilitates housing organisations to redesign their services, extend provision and service reach, and support other appropriate ventures.
- 85** In a more competitive market, where customers have more influence, the ability to provide quality services, offering more choice, at a competitive cost will be an advantage. It is important that the regulatory framework keeps an eye on how housing organisations are using their resources. The Commission has implemented similar approaches in the local government and health sectors and with the police. External auditors, working within a specific Code of Audit Practice, assess various aspects of value for money, utilising a risk-based approach. A similar approach could be developed for community housing.

Figure 2

Value for money – securing economy, efficiency and effectiveness



Pricing policy

- 86** Currently the national rent regime links the rents of all local authority and housing association stock, at a local level. The level is set by government, using a combination of capital values and local earnings. It is linked to the housing benefit regime and, where relevant, to the Housing Revenue Account subsidy system.
- 87** This approach has merits, but several questions arise, especially as the current system does not take service performance into account, and has no obvious relationship with decent homes standards.
- Q** Should rents be fixed by government, or should they be set or at least recommended by a regulator?
 - Q** Should the rent-setting regime reflect policy requirements and the contribution providers make to wider community objectives?
 - Q** How should community housing rents relate to the market rents determined by the Rent Service?
 - Q** Should the Rent Service determine all rents?
 - Q** Should there be incentives and sanctions for performance using either rent level flexibility or Housing Benefit?
 - Q** How do you help people to have choice and how could uniform rent levels allow for this at a local level?
- 88** Government needs to control the effect of rents on public expenditure, felt by the exchequer through the cost of housing benefit, and to continue to tackle affordability. However, an important next step would be a review of the current rent-fixing regime to see how it could be redesigned to encourage good performance that is efficient and affordable, while protecting the public purse.

Cost of private capital

- 89** Housing is a capital-intensive industry and needs substantial ongoing investment to provide new stock and to maintain and modernise existing housing. The government's decent homes programme was introduced to tackle the estimated backlog of investment in existing community housing of £19 billion. In the ten years between 2000 and the original deadline date of 2010 for decent homes, government will have spent similar sums to make up for this backlog. It will also have allocated an equivalent figure to produce additional community housing. This will have been matched by resources secured through private borrowing, mainly by housing associations. The stock transfer programme has also injected significant sums to upgrade stock.
- 90** Particular projects for additional housing or refurbishment will change over time. But the need to access capital and keep an increasing proportion of this outside the Public Sector Borrowing Requirement will continue.
- 91** Lenders will continue to apply due diligence requirements before making funding agreements and will continue to secure the business reporting arrangements that they need. The regulatory framework will also have requirements. But these should be increasingly aligned with the way organisations manage their business and will have to adapt to this, given the diverse range of organisations in the industry.
- 92** However, it is important that lenders, although alert to any regulatory framework, continue to make their own assessments. These sit alongside the regulator's responsibilities, which are: (a) to protect taxpayers' interest in publicly funded assets; (b) to establish and maintain a regulatory framework which promotes continuous improvement; (c) to report publicly on which organisations are or are not performing well (and why); and (d) to deal with cases of poor performance.
- 93** As a by-product, this will mean that a more sensitive lending market may develop and that some organisations may find that their poor performance, translating into risk, will result in having to pay more for borrowing. Were this to happen then it would be an additional economic stimulant to performance.

9

A regulatory framework that is proportionate to risk, scale and performance

94 The government's requirement to reduce the weight of regulation experienced by providers and the cost of compliance will need to be an integral part of the approach that is adopted. In developing an approach that is more proportionate, and which is more mindful of costs to those organisations which are subject to regulation and the benefits to their customers, a number of themes emerge which need further exploration.

The use of management information

95 Part of the debate about regulatory burden concerns centrally or at least externally required and specified information. This can take different forms including:

- the setting and monitoring of national targets;
- performance indicators;
- financial returns;
- activity returns (such as CORE by housing associations or quarterly homelessness submissions by local authorities); and
- business plan model format requirements.

96 Regulation should act as gatekeeper to control the amount of information required, so the information that organisations already use to manage their business can be more fully exploited. This would require a more sophisticated regulatory response that would put more value on the accuracy of information. It would also mean that government and its agencies will need to learn how to let go of their extensive data requirements. This will not be easy, but if the aim is to empower and energise local organisations to meet customer needs, and produce local information that informs choice and helps improve performance, it will be an important step.

- 97 Improving knowledge management and information sharing between regulated bodies and the regulator, and making the regulator responsible for the access to information by other central agencies, such as other government departments, will be another important move towards strategic and intelligent regulation.

Competition and contestability

- 98 There are few incentives within the community housing market for organisations to compete to supply services, or for there to be improvements in the quality of those services.
- 99 Most ALMOs have improved the quality of the services that they provide to the parent local authority's tenants, often in a very short space of time. In part this is because the essential investment resources needed to lift the quality of the stock are linked to providing good services – as measured by the Commission's inspection regime. This is of course a significant one-off incentive and the question arises whether the improvements that have clearly been achieved can be sustained in the longer term.
- 100 There is also some incentive for single purpose local authorities to consider the quality of their housing services in the context of a risk-related inspection programme and the assessment of their overall approach to housing as measured by the various components of CPA. The district council model of measurement, being proportionate to their smaller scale and narrower range of services, does not have the same incentives, albeit there is still a risk-based inspection programme.
- 101 For housing associations the drivers for competition relate to maintaining, or attaining, development status. This would be challenged if the HC thought that its assessment of an association, informed by an inspection where relevant, required one of the indicators to be moved from green or amber to red.
- 102 The absence of choice between organisations (and within organisations) and the neutralising effect of the rent regime, which does not reflect the quality of property or the services provided within a locality, does need to be considered and options for generating competition around standards put in place.
- 103 Creating the operating environment whereby providers are under pressure to improve their service performance will require a number of different elements to be in play:

- Standards of service should be easily available so current and future customers, and their advocates, can compare the 'offer' in the local market.
- Rents, service charges and other housing costs also need to be available for public comparison.
- Over time, rent levels should reflect levels of service so that there would be a degree of price differentiation (down as well as up).
- Value for money requirements should give rise to better procurement which could generate a more effective service supplier market with benefits of both improved quality and increased efficiency.

104 The Cave Review, and subsequently government, will want to consider how to use competition levers to ensure that the rewards are available for those organisations that provide good services, or better, in the medium term.

Business management

105 The regulatory framework should fit around established business management arrangements and allow for the future diversity of the sector. It will not be necessary or desirable to try to treat all organisations identically.

106 For those local authorities who plan to retain their stock, with or without an ALMO, the discipline of business planning should be more rigorous. This will be needed following the decent homes period, especially if the freedom and flexibilities that are to be tested by CLG within the Housing Revenue Account subsidy system are to be implemented successfully. There will be some local scrutiny. But this will need to be reinforced by a regulatory framework, especially in the early days as the business environment develops for local authorities, which may aim to be self-financing.

107 As this approach develops we will also want to review current audit practice across local authorities who continue as landlords to ensure that it remains appropriate, that the risk management arrangements are sound, and that the move to proper business systems is subject to suitable internal controls.

108 On the whole, large housing associations are far more skilled in business planning and financial management than local housing authorities. But they are subject to far more external financial reviews by the HC and their lenders.

- 109** We think that in future associations should be more independent, with a different approach to financial scrutiny for the best performers. The financial appraisal requirements, first introduced with the mixed funding regime in the late 1980s, are being reviewed by the HC as a result of the Elton Review. In taking this further it will be important to ensure that lenders are happy with any changes; that associations which may benefit from a more bespoke arrangement have the competence to justify less intensive regulation; and that the regulatory framework retains a sufficiently robust knowledge base and appropriate powers to protect customers.
- 110** Providers now include private companies that may retain long-term ownership of the community housing they develop. This adds a different dimension to the supply network, as the regulator cannot oversee these companies, which are likely to have plc status, in the same way as other providers. So the responsibility for financial management rests with private companies' accountability to their shareholders.
- 111** For private companies, their financial strength would be seen as protection to underwrite commitments to keep grant-funded community housing available. This would be further reinforced by placing the property on the local register of community housing.

Managing market entry and exit

- 112** There has been recent discussion in the sector on whether there should be a system of accreditation or licensing or both. The HC has chosen to adopt this system for private managers, should they be asked to manage stock. This is an understandable choice, but given the many delegated functions across management, maintenance and support services it may be an increasing complication.
- 113** All owners of community housing should be expected to have the capability and capacity to manage their stock. This includes the appointment of managing agents, contractors and consultants. Apart from ALMOs, few of these are accredited or licensed in any specific way at present.
- 114** If owners of community housing make unsatisfactory arrangements to maintain their assets or provide services, whether directly or through others, the regulator should challenge them. This would focus inspection, assessment and, potentially, external audit resources on diagnosing the failings and requiring swift remedial action, including where necessary prompt responses to improvement notices and payment of compensation.

- 115** Ultimately intervention could culminate in the appointment of another body or bodies to undertake the failing service. Such measures could be triggered by matters uncovered directly by the regulator; or:
- customer and other stakeholder concerns, including serious complaints, about service performance;
 - external audit concerns around financial management, data quality, governance and grant conditions;
 - lender concerns around financial management and business performance;
 - shareholder concerns around business performance;
 - parliamentary concerns about sector performance and the application of public resources;
 - government concerns about value for money and performance;
 - concerns emerging from CAA about local place shaping;
 - evidence from whistleblowers; and
 - information from an ombudsman.
- 116** We think that regulatory action should include the powers that are held currently by government and the HC. In addition there should be a range of preventative sanctions that could be applied proportionately to the concern and at relatively low cost. These could include improvement notices with increasing degrees of formality and publicity should the required improvement not be achieved.
- 117** In all this a balance must be struck between holding organisations to account, as owners of housing stock, for decisions they have legitimately taken, and a national regulatory framework that occasionally intervenes in the interest of customers, communities or taxpayers.
- 118** Entry and exit from the market will be more complicated as the range of organisations and the businesses they have an interest in become more diverse. It is possible that merger and acquisition arrangements will cover management of services as a separate element of the market from ownership and that some organisations will move out of the housing industry as they pursue other business opportunities.

- 119 Where there is a lack of competition in the provision of community housing in an area, especially where there are concerns around standards, accountability or performance, then the regulator will need to consider what action to take to improve the local market.

National policy passporting

- 120 The government may well want the owners of community housing to adopt national requirements in relation to housing and related policy, often called ‘policy passporting’. This has sometimes caused concern if the basis for change has not been placed on a firm footing. Recent comments have suggested that some aspects of regulatory requirements introduced by the HC on behalf of government have only been implemented with the consent of housing associations.
- 121 In future the relationships between government, Communities England and the regulatory framework need to be thought through so that the boundaries are clear for all concerned. As part of this consideration should also be given to the regulator being required to play a role in assessing, and reporting on, the cost of the implementation of passported policy requirements. This would be consistent with a role for the regulator which we believe needs to be independent of both government and housing providers, and of any other bodies that might give rise to a conflict of interest.

10

Conclusion

- 122** The strategic importance of housing is well recognised by government. We predict that the future focus on the housing agenda will increase as it is related so closely to economic success and quality of life.
- 123** We have reflected on the need to create a relevant but broader strategic framework for regulation that focuses clearly and directly on the objectives of community housing and minimises the cost of regulation.
- 124** This framework will require significant further work. Not least of this is the need to encapsulate the appropriate range of powers required to give authority to the regulator to implement and refine this framework. These powers should encompass a clear approach to incentives and sanctions, with the latter leading in extreme cases through supervision to intervention.
- 125** We have considered fully what needs to be included in a future framework and accepted that this would inevitably lead to change. However, a thoughtful migration from where we are to where we need to be is entirely possible.
- 126** We believe this would enable a more connected sector to flourish, where performance is more important than organisational form and customers are centre stage.

Appendix

The Audit Commission

The Audit Commission was established by the Local Government Finance Act 1982 and began operations on 1 April 1983. It is a public corporation sponsored jointly by CLG and DH, with CLG being the primary sponsoring body. Our work covers local government, health, housing, community safety, and fire and rescue services.

Since it was created, the Commission's powers and remit have changed many times. Reflecting this, a consolidating Act, the Audit Commission Act 1998, was given Royal Assent in June 1998 and this is the primary piece of legislation defining our role. However, since 1998 our responsibilities have also been amended by the Local Government Act 1999, the Local Government Act 2003, the Health and Social Care (Community Health and Standards) Act 2003 and the Public Audit (Wales) Act 2004. Two bills before Parliament will further amend our powers and remit. These are the Local Government and Public Involvement in Health Bill, which will implement the proposals in the Local Government White Paper and bring the Benefit Fraud Inspectorate into the Commission; and the Serious Crime Bill, which will extend the scope of our National Fraud Initiative.

The Commission's core role has always been the appointing of auditors to audit the accounts of local authorities in England (and formerly also in Wales) and regulating their work. This is done by declaring a statutory Code of Audit Practice, which we present to Parliament for approval every five years; by setting fees for audit work; and by dealing with complaints about the work of auditors (but not about the judgements they make, for which they are accountable only to the courts). We are also the auditor of last resort – which is why we need to have representatives in every region in the country. We therefore operate a mixed economy in which two-thirds of those we appoint as auditors are Commission employees but the remaining third are from the big accountancy firms. Whether they are employed by us or the firms, auditors have statutory powers in their own right and act independently of the Commission.

On 1 October 1990 we assumed responsibility for the external audit of local NHS bodies, although the NHS itself, as part of the DH, continues to be audited by the National Audit Office (NAO). In auditing the consolidated NHS accounts the NAO relies on the work of our auditors in NHS trusts and primary care trusts. Our audit remit covers local

government, local NHS bodies, and other local bodies such as police authorities, probation boards, fire and rescue authorities, waste authorities and similar bodies. We do not appoint auditors to NHS foundation trusts, but our officers may be appointed as the auditors of a foundation trust by the trust's board. So within the foundation trust sector we compete with the private sector firms for audit appointments. To date, around half of foundation trusts have chosen to appoint the Commission as their auditor.

In addition to our audit role, we have a duty to undertake studies and publish national reports aimed at promoting economy, efficiency or effectiveness in the delivery of public services or examining the consequences of implementing government policies. Our national studies therefore aim to support practitioners and also to influence policymakers. Many cross sector boundaries, drawing lessons from our work in different sectors. In the housing sector some of our studies are funded by the HC. In other sectors they are funded through audit and inspection fees or occasionally through government grant.

In the early 1990s, the Citizens Charter gave us a power to require audited bodies to collect and publish performance indicators. We have chosen not to use this power in recent years as the government specified performance indicators after the best value regime was introduced. But we retain considerable expertise in this field as we collect the information and validate it. We are in discussion with CLG officials about a new role for the Commission in relation to performance indicators as part of the new performance framework for local government. We also have extensive experience of auditing the quality of performance information. We regularly undertake and report on quality audits of crime statistics and have recently been asked by the DH to provide an assurance framework for the NHS data that is used to drive Payment by Results.

The introduction of best value was also important because as a consequence we first acquired a duty to inspect the services of best value authorities. This was one element of the 1999 Local Government Act. CPA of local authorities was first introduced by the Commission in 2002 and made a harder test in 2005. We also brought in the assessment of fire and rescue authorities in 2005. Four years ago, the Local Government Act 2003 introduced a duty power to inspect registered social landlords. This function was transferred to us from the HC because the government decided there should be a common basis for assessing the quality of social housing across all types of housing provider. We believe this is an important principle that remains valid.

In summary, the Audit Commission is an independent body responsible for ensuring that public money is spent economically, efficiently and effectively to achieve high-quality services for the public. Our remit covers around 11,000 bodies in England, which between them spend more than £180 billion of public money each year. We audit and inspect most local government bodies, although we only inspect police authorities in collaboration with Her Majesty's Inspectorate of Constabulary, and we appoint private firms to a third of our audits. We inspect housing associations but don't audit them. We audit local NHS bodies but don't inspect them. We audit around half of all NHS foundation trusts, but we do so in competition with the firms. Our audit and inspection remit no longer extends to Wales. Our national study powers, which are very extensive in local government, housing and criminal justice, are limited in the NHS to aspects of financial management. And increasingly our inspections and studies are being undertaken jointly with other inspectorates or with the NAO. In total, we spend around £200 million a year and employ around 2,000 staff.

The complexity of our role may be seen in the range of bodies we work with and in our range of activities.

Local government: Our work covers all types of councils, from small parishes to bodies such as Birmingham City Council and the Greater London Authority, and takes in all local council services, including education, social services, fire and rescue services, leisure, environmental services and regeneration. We also look at the central functions of councils, like corporate planning, finance, management and human resources.

Housing: As well as housing services run by local authorities, we inspect and assess housing associations, ALMOs, market renewal pathfinders and Supporting People partnerships.

Health: We cover strategic health authorities, hospitals, ambulance trusts, mental health trusts and primary care trusts, and health work that overlaps with social services, like child protection.

Community safety: We look at services delivered by police authorities and probation boards but not the prison service. We also cover other parts of the criminal justice system, like youth offending teams, where our work overlaps with that of local government.

Our work can be divided into five main areas, though these can overlap:

Audit: Our audit work extends beyond giving an opinion on the accounts. Our auditors also have to judge whether the audited body has put in place proper arrangements to secure value for money, and must thus review data quality and aspects of governance. In the sectors where we are responsible for issuing a Code of Audit Practice, auditors also publish scored judgements of the use of resources by the audited body.

Inspection: As inspectors we focus on whether local authority and housing services are of good quality, value for money and likely to improve. This includes assessing whether organisations are reviewing their services regularly, and improving them. In certain cases the outcome of an Audit Commission inspection may determine whether the inspected body will continue to have a licence to trade. This is because ALMO funding depends on a successful inspection and because our inspection judgements feed into the Corporation's regulatory activity in the registered social landlord sector.

Performance information: We collect, check and publish performance information on services, including housing. We also help organisations collect information to measure how they are doing against local performance indicators and against quality of life indicators, which look at the economic, social and environmental well-being of an area. Our Area Profiles bring together published information from a range of different sources relating to the same local area.

Assessing places: We have been responsible for assessing the overall performance of every council in England through Comprehensive Performance Assessment since the programme was launched in 2002. The proposals in the Local Government White Paper will replace this with a new role for us from 2009 in compiling an annual risk assessment. This will be area based, and so will include local outcomes of assessments on bodies other than the local authority.

National studies: Our national studies programme is about the same size as that of CLG. Our national reports address strategic issues affecting specific sectors as well as public services as a whole. They identify good practice and examine national trends to improve local performance and influence national policy.

Our current strategic plan identifies five strategic objectives:

- To raise standards of financial management and financial reporting.
- To challenge public bodies to deliver better value for money.
- To encourage continual improvement in public services so they meet the changing needs of diverse communities and provide fair access for all.
- To promote high standards of governance and accountability.
- To stimulate significant improvement in the quality of data and the use of information by decision makers.

All these objectives are relevant in considering the future regulation of housing.

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