Communities
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Evaluation of management and maintenance costs in local authority housing

Report of findings

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HQN Limited

July 2009
Department for Communities and Local Government

The findings and recommendations in this report are those of the authors and do not necessarily represent the views of the Department for Communities and Local Government.

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Executive summary

Headline

There is considerable evidence that the need to spend on management and maintenance (M&M) within local authorities (and arms-length management organisations (ALMOs)) is greater than the level of allowances currently provided through the subsidy system. In overall summary, this evidence is that:

- After allowing for non rent sources of income, net expenditure on management and maintenance exceeds allowances consistently by 5 per cent, with the key shortfalls seen in management expenditure areas.
- Expenditure on management for local authorities is some 5 per cent lower overall than comparable expenditure in the registered social landlord (RSL) sector, with the major differential in general management costs.
- There are costs being incurred despite an absence of coverage within the allowance methodology, particularly for environmental costs (an average of up to £50/unit) and the residual cost of managing leaseholders. The majority of costs relating to disabled adaptations are not being charged to revenue but these costs are large and growing.
- A large and growing proportion of management costs, perhaps up to 40 per cent, are being incurred in 'non-core' service areas and whilst a proportion of these costs are recovered through a diverse range of income streams including grants, service charges and other contributions, the net cost of these services is significant and growing.

Summary issues

Although this report has not addressed an update of the national need to spend model developed in 2002–03, evidence has been collected which describes the way in which expenditure is being incurred against the assumptions within the allowance methodology driven by that model.

Net expenditure on management and maintenance exceeds allowances consistently by around 5 per cent but in London the relationship is much wider; it is unlikely to be possible to identify the extent to which the position in London is as a result of historically high allowances which have now been reduced in real terms or whether allowances do not either reflect an additional need to spend or relative prices in London. The weight of evidence suggests that authorities spend the resources they receive.

Expenditure by London boroughs compared to the national average is greater in proportionate terms than for London regulated RSLs compared to the national RSL average.

The pattern of expenditure within core management appears broadly consistent with the management allowance methodology suggesting the main drivers remain as in 2003 although there is some evidence that the costs of collecting income are understated in the allowance methodology. The pattern of expenditure within maintenance differs from the maintenance allowance methodology with greater emphasis on planned repairs in the allowances than in actual expenditure.

7p in the rent £ less is set to be spent on services and the stock (major repairs allowance (MRA) and revenue contributions to capital outlay (RCCO)) in 2008–09 than in 2006–07, which reflects the changeover from positive to negative subsidy between the two years. This is further evidence that authorities, at the national level at least, spend whatever resources are available to them in the housing revenue account (HRA) (from rents, other income plus or minus subsidy).

It is difficult to escape the conclusion that, in general, authorities reflect in service expenditure the changes in M&M allowances. This would tend to support the assertion that 'authorities spend what they get in allowances' supplementing service delivery with additional resources within the HRA from a combination of sources.

There is a lack of clarity in the treatment of the management of maintenance function within the allowance methodology. Even allowing for differential treatment between authorities, the evidence is that expenditure on management exceeds allowances by around 8 per cent and on maintenance by around 3 per cent.

Unit management costs are lower than for RSLs by up to 5 per cent but the differential is reflected in different levels of rent income. Whilst there is no material variation between the sectors in terms of overall M&M costs when controlling for income levels, there is evidence to suggest that RSLs spend more on management and less on non-major repairs than local authorities and ALMOs. This pattern may in part reflect the nature of RSL stock and in part reflect the greater funding flexibility available to RSLs.

Evidence collected from the sample organisations suggests that net efficiencies in the delivery of core services over a sustained period have been reinvested in a growing variety of services.

The very wide variety of new services which are outside the description of 'core management' means that it is unlikely that the sector will easily arrive at a consensus as to the dividing line between 'core' and 'non-core' services, although there is consensus around the core management definitions utilised by HouseMark. It is therefore doubtful that particular drivers locally could be sufficiently robustly identified to form the basis for anything other than a generalised national allowance allocation.

There are a number of approaches to defining what is 'core' and 'non-core', ranging from a definition based on whether regulated by the Tenant Services Authority (TSA), whether services are funded from rents or additional income and whether they are properly fundable from allowances. The report concludes that an approach based on equating 'non-core' with 'non-landlord' is likely to achieve greatest support.

However, an approach based on defining landlord services between 'core' and 'core-plus' (as distinct from non-landlord non-core services) could be attractive. New and additional services popular with tenants, where these is a consistent pattern of delivery around the country (albeit not in the level and costs), including estate and supported housing services, and where costs may or may not be fully recovered through non-rent income sources might be classified as 'core-plus'; scope could therefore be developed for the net cost of these to be included in allowances. The definition of non-core should therefore be focused towards 'non-landlord' services chargeable to the community as a whole.

The 'core-plus' pattern is expanding but there is growing consistency in some areas such as anti social behaviour, supported housing, tenancy support and sustainment which to a degree is provided by all landlords. Expectations are that the emphasis on expenditure for core-plus service areas will increase in the future.

Core-plus and non-core services are funded from a wide variety of non-rent, charges, grant and general fund routes as well as a large proportion remaining which fall on rents within the HRA; the approaches locally to funding services are as varied as the range and type of services. RSLs also fund net costs of core-plus and non-core services from rents.

There is no reflection of core-plus services within the current allowance methodology yet these costs represent a minimum of 40 per cent of gross general management costs overall. There is strong evidence that this is higher in London and some evidence that the same is true for ALMOs.

Summary brief

The six areas of the brief for this research are summarised below, to:

1. Define the breadth and scope of landlord's service currently being provided by local authority landlords and RSLs and how the basket of services has changed over time.
2. How landlords have coped with changing demands, through income, efficiencies, trade-offs and whether landlords have stopped carrying out some work.
3. Provide an analysis of the range of management and maintenance services, including for management: core and non core services, and for maintenance: responsive, voids, cyclical (excluding planned-capital).
4. Break down current services costs by type, region and other classifications (including whether there has been competitive tendering or not).
5. Carry out a comparison between RSL and LA sectors.
6. Develop the key drivers in terms of cost differentials including the role of regional price differences.

The brief has not therefore includes an update to the national need to spend model developed during 2002–03 which helped establish the current formulae for management and maintenance allowances, but the work does test the current formulae methodology against patterns of service expenditure.

Summary recommendations

In addition to the overall findings, a number of recommendations have arisen as a result of the analyses undertaken. These are as follows.

Overall level of allowances: *high priority*

The overall conclusion is that there is evidenced spend on management and maintenance around 5 per cent above the current level of allowances. For management costs, this is additionally supported by comparisons to RSLs.

These needs should be funded by M&M allowances (or the equivalent in any reformed system) to prevent resources which are properly allocated to other areas of the HRA from subsidising service delivery.

Further work on additional components of allowance methodology: *high*

There are three elements of additional expenditure where it is recommended that consideration is given to reflecting costs within M&M allowances (or equivalent). Further work is suggested to arrive at a detailed basis for allocation. These are for:

- The residual costs of leaseholder management
- Environmental maintenance
- The non-recovered and non-recoverable element of HRA landlord services which are additional to core service, including special services, estate services, supported housing and tenancy support and sustainment.

Regional distribution of allowances: *medium*

To address the only clear outlier from the quantum of all analyses undertaken, more work is required as to the specific cost drivers within London authorities, especially a) whether the pressure for non core costs in London is greater compared to the rest of the country and b) the detailed drivers affecting whether there are residual and unrecoverable costs of leasehold management.

Balance between existing components within allowance methodology: *medium*

There should be greater clarity on the treatment and allocation of allowances for the cost of the management of maintenance within any revised formulae.

Alignment of the balance between elements within each allowance formula could be updated in order to more closely reflect the pattern of actual costs.

Collection of national data: *lower priority*

Subsidy claim data should be collected according to modern methods of accounting within the HRA consistent with resource accounting and the latest accounting practice. Leaseholder numbers should also be collected.

1 Introduction

HQN Limited were commissioned by Communities and Local Government to carry out an evaluation of management and maintenance costs within local authority housing as part of the Review of Council Housing Finance announced by the housing minister in March 2008. This report was commissioned in July 2008. This draft report sets out the main findings of the evaluation work; a summary report is also being published which summarises the key outputs, findings and recommendations from the work undertaken.

The report is structured in line with the key areas of investigation which have been undertaken. These are as follows.

Section 3 is compares actual expenditure with allowances at the national level as part of the establishment of a 'national HRA account' for council housing income and expenditure. For comparative purposes, this has been undertaken against the 185 authorities that are in the subsidy system for 2008–09 and for which there are no imminent plans for stock transfer.

The main purpose of establishing such an estimate of the national account is to enable identification at a high level of the sources of finance for service delivery within the HRA. This then enables a test of the notion that 'authorities spend what they receive in allowances' in overall terms and also offers some useful pointers to the way in which HRA finances are managed around the country.

This national analysis is then taken on through the development of a measure to represent the net cost of management and maintenance for comparison to the level of allowances; this is then analysed at the national level and by region, size, authority type and whether authorities have an ALMO or are direct-providers of services (direct-providers as 'retention' authorities) in order to test whether the pattern of actual costs against allowances are different between these different classifications.

Section 4 sets out the same overall and classified analysis in terms of the 'Rent income £', undertaken in order to control for the pricing, rent and other income effects of different authorities. It is a truism to state that if income is higher, expenditure will be higher and this analysis controls for this impact by normalising rent income to a single £-week across the country.

Section 5 comprises a comparison of costs against RSLs using the Housing Corporation's published Global Accounts for 2006–07. Gross and net costs are compared to both traditional and transfer RSLs as well as an analysis undertaken in terms of the '£ of rent income' established in section 4.

During the course of this review, a number of suggestions for cost drivers have been made. Section 6 comprises a series of analyses of costs against these suggestions which include performance levels, demographics and the proportion of leaseholders within the stock.

Section 7 contains a primarily qualitative analysis of the evidence gathered from sample organisations from a series of focus groups and other case studies. In this section, the bases of all subsequent analyses around the definitions of core and non-core expenditure are set out and the options available in defining these terms. Exemplars of non-core costs and material on how stakeholders at individual authorities perceive their roles to be changing are summarised. It should be noted that all sample organisations have requested anonymity (save for the exemplars of non-core costs incurred set out below) both in terms of their views on services and in terms of their gross and unit cost base.

Section 8 comprises the gathering of quantitative data relating to the nature of services provided by local authorities in order to build a picture of core and non-core expenditure. Within section 8, there are also estimates of income sources for non-core services and of service areas where costs universally acknowledged as being incurred (and growing) but where there is no current allocation within the allowance methodology. Data is collated from a list of sample organisations and from HouseMark's large dataset of members submitting costs of core-management data.

Section 9 then brings together the national estimates of costs developed in sections 3 and 4 with the analysis of core and non-core costs developed in section 7 and 8 to develop a national estimate of the pattern of expenditure within management and maintenance, including the nature of expenditure between core and non-core service costs.

Section 9 is then concluded with a comparison of patterns of expenditure against the current methodology for the determination of management and maintenance allowances. It should be noted that the work does not represent an attempt to establish revised formulae, rather to test the balance within existing formulae against actual patterns of expenditure.

A summary of the methodology adopted, the data sources consulted and sample organisations which participated in the evaluation is set out in an appendix to this report.

HQN would like to acknowledge the considerable efforts of officers at participating organisations and colleagues from HouseMark in the development of this report and colleagues from Communities and Local Government in providing feedback throughout the various stages of the work.

2 Development of a national housing revenue account

2.1 Explanatory note

Memorandum data from subsidy claims between 2006–07 and 2008–09 have been utilised to develop an estimated national HRA for 2006–07 (actual outturn) and 2008–09 (base budget). A similar exercise for 2003–04 was carried out to test the possible changes since the major reallocation of formulae and resources which took place from 2004–05.

The national HRA is set out within this report to reflect the main areas of income and expenditure and the way in which authorities are able to finance different forms of expenditure.

The data collected within the subsidy claims is memorandum and based on the items within the 1989 Local Government and Housing Act Schedules and has not apparently been updated since 1990. It is likely therefore that authorities interpret some of the headings differently; this might affect integrity at lower levels of analysis. The review presents a strong case for updating the basis for data collection within subsidy claims to reflect modern accounting practice.

2.2 Note on definitions

Throughout this report, the standard definitions of terms in use in local authority accounting and financial practice have been used. These are as follows.

Management: used to describe both general management and special services; this is taken to include the management of the repairs and maintenance function.

Maintenance: used to describe direct expenditure through suppliers, contractors, partners and direct labour organisations on repairs and maintenance to the stock which is properly charged to revenue within the housing revenue account (HRA). This is taken to exclude the client management of these services.

General management: this describes non-maintenance expenditure on services for the whole stock and all tenants. It is equivalent to what used to be called supervision and management general and is also equivalent to the general term ‘management’ used for RSLs. General management includes core management costs but might also include expenditure which might previously have been regarded as non-core (for example dealing with anti-social behaviour) and also estate management in the widest sense of procurement and management of services for estates.

Special services: this describes services which are for the benefit of certain groups of tenants only, usually those residing in flats or other communal properties-areas. Special services cover what used to be called supervision and management special and is broadly equivalent to the term 'services' used for RSLs. Generally, but not exclusively, special services attract specific sources of non-rent income such as grant, service charges or other contributions and cover a wide variety of service types including supported housing, estate services (as opposed to management) such as grounds maintenance, caretaking and concierge, communal costs of running flats (e.g. cleaning) and costs relating to services provided to flats containing leaseholders.

Estate services are distinguished from *estate management* in that services are directly provided to communal areas-estates for part of the stock whereas management of estates is in the totality of service management.

It should be noted that the definitions in use between sample and other authorities now varies to a greater degree than probably at any time since the inception of the HRA as a separate account in 1935. For example, it is not uncommon to find some estate services now included in general management and all analyses between 'general' and 'special' need to be caveated in this context.

2.3 Estimating the national HRA

As part of this work and in general across the sector, authorities convey a strong sense of 'we spend what we get' in relation to management and maintenance expenditure. In this context, the estimated national HRA set out below has been developed to test the means of funding services. The tables below show the position for 2006–07 and 2008–09 for this national account.

There can be differential interpretations in the use of terms between authorities in these returns. We have utilised our local knowledge and contacts to address these anomalies and as a result we are satisfied that there is sufficient consistency to achieve a high degree of integrity within the overall analysis. We have supplemented the generation of the account with a detailed authority by authority analysis of what is known and where appropriate, questions asked of individual authorities and corrections made.

Table 1a: estimated national HRA (£m)				
Description	**Actual 2006–07**	**Budget 2008–09**	**Change**	**% change**
Properties	1,927,499	1,849,148	–78,351	–4%
Dwelling rent income	5,718	6,043	326	6%
Non-dwelling rents	179	177	–2	–1%
Service charges	500	504	4	1%
Contributions	122	95	–27	–22%
Subsidy	189	–237	–426	
Gross income	**6,707**	**6,582**	**–125**	**–2%**
Maintenance	1,694	1,695	1	0%
General Management	1,552	1,650	98	6%
Special Services	722	696	–26	–4%
Change in BDP	35	49	14	39%
Rents, rates and taxes	116	89	–28	–24%
Service expenditure	**4,120**	**4,178**	**58**	**1%**
Depreciation net of MRR adj	1,232	1,229	–3	0%
RCCO	280	255	–25	-9%
Depreciation and RCCO	**1,512**	**1,484**	**–28**	**–2%**
Investment income	–106	–74	32	–30%
Capital charge	961	820	–141	–15%
Debt management	11	12	1	11%
Premiums-discounts	83	62	–21	–25%
Net loan charges-interest	**948**	**820**	**–128**	**–14%**
Net income-expenditure	**–127**	**–100**	**26**	**–21%**
Net transfers in-out	41	28	–13	–32%
In year movement	**–86**	**–73**	**13**	**–16%**
Balance brought forward	**–833**	**–854**	**–21**	**2%**
Balance carried forward	**-919**	**-926**	**–7**	**1%**

Table 1b: estimated national HRA (£-unit per year)				
Description	**Actual 2006–07**	**Budget 2008–09**	**Change**	**% change**
Dwelling rent income	2,966	3,268	302	10%
Non-dwelling rents	93	95	3	3%
Service charges	260	273	13	5%
Contributions	63	51	–12	–19%
Subsidy	98	–128	–226	–231%
Gross income	**3,480**	**3,560**	**80**	**2%**
Maintenance	879	916	38	4%
General Management	805	892	87	11%
Special Services	375	376	2	0%
Change in BDP	18	26	8	44%
Rents, rates and taxes	60	48	–12	–21%
Service expenditure	**2,137**	**2,259**	**122**	**6%**
Depreciation net of MRR adj	639	665	25	4%
RCCO	145	138	–7	–5%
Depreciation and RCCO	**785**	**803**	**18**	**2%**
Investment income	–55	–40	15	–27%
Capital charge	499	444	–55	–11%
Debt management	6	7	1	16%
Premiums-discounts	43	33	-9	–22%
Net loan charges-interest	**492**	**443**	**–49**	**–10%**
Net income-expenditure	**–66**	**–54**	**12**	**–18%**
Net transfers in-out	21	15	–6	–29%
In year movement	**–45**	**–39**	**5**	**–12%**
Balance brought forward	**–432**	**–462**	**–30**	**7%**
Balance carried forward	**–477**	**–501**	**–24**	**5%**

In overall terms, the tables show the following.

In 2006–07, income of £6.7bn was raised including £5.7bn of rent income and this was committed £4.1bn to day to day service delivery, £1.5bn to the financing of major repairs from revenue (from MRA and revenue contributions to capital outlay) and £0.9bn to capital charges net of investment income. Scope exists within the returns to define 'transfers in and out of the HRA' according to definitions contained in the 1989 Local Government and Housing Act and after these are included, the net in year movement was to input £86m into balances, with an overall HRA balance carried forward to 2007–08 of £919m.

In 2008–09, budgeted income is slightly reduced to £6.6bn including £6.0bn of rent income committed £4.2bn to day to day service delivery, £1.5bn to the financing of major repairs from revenue (from MRA and revenue contributions to capital outlay) and a reduced £0.8bn to capital charges net of investment income. After transfers are included, the net in year movement is to budget the input of £73m into balances, with an overall HRA balance carried forward to 2009–10 of £926m.

Budgeted income is reduced primarily as a result of overall reductions in the amount of HRA subsidy between the years, moving from a position of net 'positive' subsidy to net 'negative' subsidy.

The most striking issues to arise from an overall view of the financial position in both years appear to be:

- Income in excess of rents is considerable but is not necessarily being used to supplement day to day service expenditure.
- Rather, there is a large reliance on revenue contributions to supplement capital resources (over £250m in both years).
- The level of balances at over £900m.

Further comment is made below after the analysis of the way in which services are financed.

The overall picture appears to be one of prudence and movement in line with both inflationary and guideline increases in costs and income.

2.4 Using the national HRA to estimate the financing of services

Many of the components within the HRA subsidy calculation are not available for expenditure on day to day services, including major repairs allowance and subsidy for debt charges-interest. In overall terms, guideline rent surpluses are unavailable to the local HRA as these are pooled nationally. Nevertheless, where there is a difference between actual amounts and the components of subsidy, these are available for the financing of other expenditure in the HRA; these are:

- The excess of rent income over assumed guideline rent income
- The excess of subsidised debt charges-interest over actual debt charges-interest

The next part of this analysis therefore controls for the absolute amounts of rents and levels of debt by analysing the differences between actual and subsidised amounts and identifying the extent (if any) to which these amounts are being used to finance day to day services. In table 2, the subsidy calculation has been split out and compared to the costs (gross and net) of services in order to identify this relationship.

The tables below show the relationship between the various methods of finance and the expenditure on day to day services; expressed in per unit terms for 2006–07 and 2008–09 and then in terms of expenditure compared to the level of management and maintenance allowances.

Table 2a: estimated national HRA and the financing of services (£-unit)

£-unit	Actual 2006–07	Budget 2008–09	Change	% change
Description				
General Management *	866	940	74	8.6%
Special Services	375	376	1	0.4%
Repairs and maintenance	879	916	37	4.3%
Gross service costs	**2,120**	**2,232**	**112**	**5.4%**
Non-rent income	–415	–420	–5	1.1%
Net service costs	**1,705**	**1,812**	**107**	**6.4%**
Financed by…				
M&M allowances	1,630	1,724	94	5.8%
Excess of rent income **	84	–11	-95	<–100%
Excess debt charge subsidy offset by RCCO ***	–4	135	139	>100%
Investment income net of assumed subsidy ****	50	36	–14	–28.0%
HRA resources	**1,760**	**1,884**	**124**	**7.0%**
Net transfers-other movement *****	–10	–33		
Revenue surplus	**45**	**39**	**17**	**-**

* *includes rents, rates and taxes type expenditure*

** *arises where actual rent income exceeds guideline rent income – the figure for 2008–09 suggests authorities under-budget for rent income*

*** *most HRAs receive more in debt charges subsidy than spent on debt charges; revenue contributions to capital outlay are made by many authorities from the HRA*

**** *investment from mortgage and notional cash balance interest*

***** *net of transfers and other technical movements within the subsidy calculation*

Table 2b: Comparing financing routes with expenditure on services (£-unit)				
£-unit	**Actual 2006–07**	**Budget 2008–09**	**Change**	**% change**
Description				
Net service costs	1,705	1,812	107	6.4%
Financed by				
M&M allowances	1,630	1,724	94	5.8%
Other sources of finance	75	88	13	17.3%
Net service expenditure over M&M allowances	4.51%	5.18%	0.67%	

Gross costs of service delivery averaged £2,120-unit in 2006–07 rising 5.4 per cent to £2,232 in the budget for 2008–09. After taking into account non-rent income, net service costs amounted to £1,705-unit in 2006–07 rising to £1,813 budgeted for 2008–09 (a rise of 6.4 per cent).

Whilst M&M allowances are the major funding element for service delivery, there are contributions made from an excess of actual rent income over guideline rents assumed within the subsidy system.

In 2006–07, the excess of debt charge subsidy over actual debt charges is largely spent on revenue contributions to capital expenditure; within the table above, the excess of subsidy amounted to £276m whilst revenue contributions totalled £280m.

Net expenditure on services above the level of M&M allowances amounted to 4.5 per cent in 2006–07, and is budgeted to be 5.2 per cent in 2008–09. This forms the basis of the analysis of financing and expenditure by region and type of authority below.

2.5 Key headlines from development of the estimated national HRA account

Within table 2a, the changes in rent income are netted off against changes in guideline rent income. Table 3 highlights the gross income position.

Table 3: changes in rents and charges between 2006–07 and 2008–09				
£-unit	**Actual 2006–07**	**Budget 2008–09**	**Change**	**% change**
Rent income	2,966	3,268	300	10.1%
Other income sources	415	420	5	1.1%
Total income	**3,383**	**3,688**	**305**	**9.0%**

Rent income is increasing by 10 per cent across two years in line with average caps and other guidance arising from the implementation of rent restructuring. At the national level, authorities are following rent restructuring.

Other sources of income are falling although this is almost entirely due to reduced contributions towards expenditure; within the two-year 1.1 per cent increase above, service charges are increasing 5 per cent and non-dwelling rents 2 per cent.

The movement between 2006–07 and 2008–09 incorporates a change round of the subsidy position from one of net income to HRAs to one of net expenditure: at a per unit level, net income subsidy of £98 will become net negative subsidy of £128.

Between 2006–07, special services costs are rising at a lower rate than rents and broadly in line with the change in M&M allowances.

The increase in management costs appears therefore to be focused on general management.

Revenue contributions to capital outlay (RCCO) appear significant in both years (£280m in 2006–07 and £255m budgeted in 2008–09). There is therefore evidence to suggest that where additional finances are available within the HRA, these are in large part being spent on capital investment funded by revenue, and not from additional unsupported borrowing.

HRA balances average nearly £500 per property at around £900m nationally in both years. This is consistent with the advice of auditors about suitable levels of reserve. Within this total, there is a small group of authorities where reserves are much higher than average; the seventeen authorities with the highest HRA reserves total £310m, averaging over £2,000 per property, as set out in table 4.

Table 4: HRA balances banded for 2006–07

£-unit	No. authorities	Level of reserves £m	£ per property	percentage of total
Reserves > £1k-unit *	17	310	2,021	34%
Reserves avge – £1k *	53	370	706	40%
Below average reserves	115	239	196	26%
Total 31.3.07	185	919	496	

** Within these totals, seven authorities hold balances totalling over £280m.*

The overall picture of prudence is reinforced and supplemented by a small group of authorities for which balances are held at very high levels. There may be many reasons for this not least of which is long term planning to deal with fluctuations in resources within a 30 year business plan.

2.6 The financing of services: key messages

The foregoing analysis allows the establishment of a key statistic to represent the extent of service expenditure within HRAs. This statistic is calculated as the < *Costs of management and maintenance net of non-rent income sources as a percentage of M&M allowance* >.

Comparisons of authorities' behaviour based on this statistic allows the following to be provided for without otherwise skewing the analysis:

- Comparisons of gross costs of service delivery are affected by the number of flats and the quantum of supported and other communal housing services (special services).
- Comparisons which include gross non-rent income are not able to be made to M&M allowances as the methodology of the latter excludes reference to special services and non-rent income.
- Many authorities report a sense of 'we spend what we get in allowances'; if there is evidence that authorities, or particular groups of authorities, have a propensity to spend well above allowance levels thereby generating resources from elsewhere within the HRA, this might suggest that allowances are out of kilter. By developing the percentage statistic, the level of allowances can be controlled for.

Net service expenditure is rising broadly in line with the increase in M&M allowances suggesting that, at the national level, authorities spend what they receive in increased allowances.

Increases in management costs are focused on general management rather than special services and the increase in management costs is double that for repairs.

There appears to be a mixed position on service charges over time with evidence that these are increasing at a lower rate than rents and more in line with changes in the actual costs of services.

The excess capital charge subsidy appears to be spent on capital expenditure directly funded from revenue, rather than financing unsupported borrowing; this highlights an in built prudence within the sector.

Income from balances is significant but balances remain replenished; this also highlights the strong approach to prudent financial management adopted by authorities.

In overall summary, authorities *are* spending more on services than they receive in allowances but not by much; the other available sources of resources are being used prudently for capital expenditure and for future planning and risk management.

3 Comparing net service costs with allowances within the sector

3.1 Explanatory note – introduction

The key comparator statistic identified above has been identified at the national level and broken down into groups of authorities as set out below. Overall, in 2006–07, authorities spent around 4.5 per cent more on services (net of non-rent income sources) than they received in M&M allowances and in 2008–09, the differential is budgeted to be 5.2 per cent. The next section shows how these vary between regions and different types of authorities.

3.2 Analysis by region and authority types

3.2.1 Region

The tables below set out the analysis of net costs against allowances by region.

Table 5a: Net spend compared to allowances by region 2006–07 (£-unit)

Region	Prop 1–4–06	Net costs over MMA	Gen Mgmt £	Special £	Repairs £	HRA services £	Non rent income £	Net service costs £	M&M allowances £
East	167,090	–1.81%	650	338	828	**1,816**	393	**1,423**	**1,449**
EM	189,067	3.42%	573	276	824	**1,672**	200	**1,472**	**1,424**
Lon	452,396	11.39%	1,476	649	1,156	**3,282**	830	**2,451**	**2,201**
NE	142,526	–8.77%	642	336	687	**1,665**	361	**1,304**	**1,429**
NW	199,026	4.16%	871	328	763	**1,963**	405	**1,557**	**1,495**
SE	186,004	0.54%	730	325	826	**1,881**	353	**1,528**	**1,520**
SW	118,873	–5.11%	537	359	768	**1,664**	307	**1,358**	**1,431**
WM	218,415	10.32%	635	246	911	**1,791**	178	**1,613**	**1,462**
YH	254,104	0.87%	712	197	719	**1,629**	192	**1,437**	**1,424**
National	**1,927,499**	**4.51%**	**866**	**375**	**879**	**2,119**	**415**	**1,704**	**1,630**

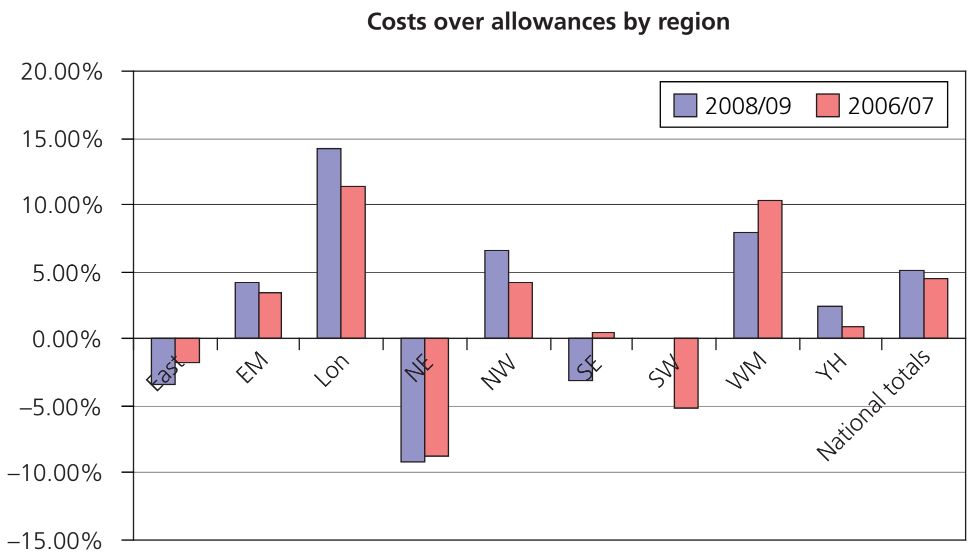
Table 5b: Net spend compared to allowances by region 2008–09 (£-unit)

Region	Prop 1–4–06	Net costs over MMA	Gen Mgmt £	Special £	Repairs £	HRA services £	Non rent income £	Net service costs £	M&M allowances £
East	163,222	–3.37%	708	367	821	**1,895**	390	**1,505**	**1,558**
EM	184,723	4.27%	678	262	873	**1,813**	213	**1,601**	**1,535**
Lon	430,740	14.25%	1,635	604	1,214	**3,453**	880	**2,573**	**2,252**
NE	137,457	-9.21%	733	359	729	**1,820**	347	**1,474**	**1,623**
NW	179,192	6.66%	699	408	770	**1,877**	337	**1,540**	**1,444**
SE	183,067	–3.11%	716	338	877	**1,932**	361	**1,570**	**1,621**
SW	117,131	0.08%	682	310	860	**1,852**	337	**1,515**	**1,514**
WM	211,852	7.86%	735	247	892	**1,874**	191	**1,684**	**1,561**
YH	241,764	2.45%	830	225	779	**1,834**	165	**1,669**	**1,629**
National	**1,849,148**	**5.18%**	**940**	**376**	**916**	**2,233**	**420**	**1,813**	**1,724**

Absolute gross and net unit costs are as shown in the tables ranging from gross expenditure of £1,629 to £3,282 in 2006–07 and a similar range in 2008–09. Absolute net costs range from just over £1,300 per unit in 2006–07 to over £2,400 in London. A similar pattern exists within 2008–09. However, when controlling for income received for the financing of services, the differences are less marked although in one region, remain tangible.

The chart below compares the expenditure by region compared to M&M allowances between the two years.

Chart 1: Net service expenditure compared to allowances 2006–07–2008–09



The tables and charts show that there is a mixed picture between regions with an emphasis on higher net costs within London and the West Midlands in 2006–07.

The pattern is similar within the 2008–09 budget although the West Midlands region shows a reduction to 7 per cent; and London authorities an increase to over 14 per cent. The latter may in particular be associated with the continued real terms reduction in allowances received by large London authorities (see analysis related to 2003–04 below).

Expenditure in the North East appears lower than is theoretically able to be financed through allowances. There may be many reasons for this, particularly additional investment into stock through revenue contributions and, in 2008–09 at least, a very large real increase in maintenance allowance received within the region.

The London region therefore shows as the main outlier in terms of net costs and it should be recalled that these costs are quoted after taking into account service charges and other non-rent sources of income.

These tables describe an overall financial position and it is not possible to infer over- or under-funding of allowances in a straightforward manner at the regional level, particularly as the overall pots for M&M allowances incorporate transitional protection for those authorities where allowances reduce year on year.

3.2.2 Type

Tables 6a and 6b set out the same statistics by authority type and size.

The classification of authority size is as follows:

- Small = Below 6,000 units
- Medium = 6,001–12,500 units
- Large = 12,501–25,000 units
- Extra large = 25,001+ units.

The size classifications have been adopted in agreement with Communities and Local Government officials as they reflect a reasonable spread of stock across classifications.

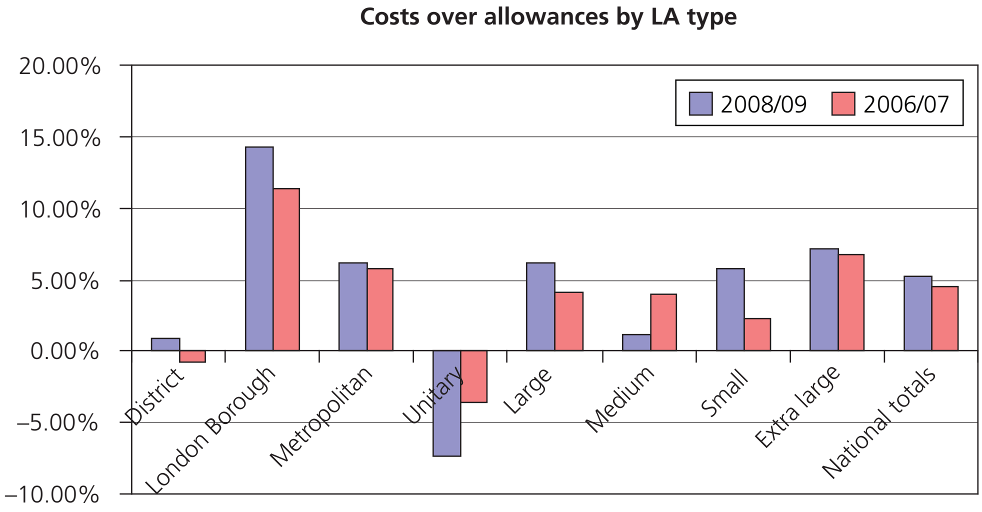
Table 6a: Net spend compared to allowances by authority type 2006–07 (£-unit)

Type	Prop 1–4–06	Net costs over MMA	Gen Mgmt £	Special £	Repairs £	HRA services £	Non rent income £	Net service costs £	M&M allowances £
District	575,159	–0.82%	601	313	775	**1,689**	312	**1,377**	**1,388**
London Borough	452,396	11.39%	1,476	649	1,156	**3,282**	830	**2,451**	**2,201**
Metropolitan	605,118	5.75%	752	278	810	**1,840**	284	**1,557**	**1,472**
Unitary	294,827	–3.59%	679	273	795	**1,747**	251	**1,496**	**1,551**
Large	618,220	4.11%	848	321	809	**1,977**	372	**1,605**	**1,542**
Medium	457,409	3.99%	829	364	907	**2,100**	436	**1,664**	**1,600**
Small	329,730	2.25%	762	415	911	**2,088**	395	**1,693**	**1,656**
Extra large	522,140	6.70%	984	423	916	**2,324**	461	**1,862**	**1,745**
National	**1,927,499**	**4.51%**	**866**	**375**	**879**	**2,119**	**415**	**1,704**	**1,630**

Table 6b: Net spend compared to allowances by authority type 2008–09 (£-unit)

Type	Prop 1–4–06	Net costs over MMA	Gen Mgmt £	Special £	Repairs £	HRA services £	Non rent income £	Net service costs £	M&M allowances £
District	562,808	0.89%	690	323	822	**1,835**	321	**1,514**	**1,500**
London Borough	430,740	14.25%	1,635	604	1,214	**3,453**	880	**2,573**	**2,252**
Metropolitan	568,454	6.15%	773	316	824	**1,912**	248	**1,665**	**1,568**
Unitary	287,146	–7.37%	720	259	839	**1,818**	262	**1,556**	**1,680**
Large	546,572	6.18%	924	390	1,003	**2,317**	390	**1,926**	**1,814**
Medium	458,745	1.17%	869	369	884	**2,123**	441	**1,682**	**1,663**
Small	365,444	5.82%	805	356	852	**2,013**	373	**1,640**	**1,550**
Extra large	478,387	7.14%	1,130	384	898	**2,411**	469	**1,943**	**1,813**
National	**1,849,148**	**5.18%**	**940**	**376**	**916**	**2,233**	**420**	**1,813**	**1,724**

Chart 2: Net service expenditure compared to allowances 2006–07–2008–09



The tables and chart show that there whilst there is a degree of consistency around authority size, the concentration of authorities which spend above the level of M&M allowances are within London and the metropolitan boroughs.

Broadly, different sizes of authorities do not vary markedly from the national average at the macro level. There would not therefore be a case for suggesting that the allowance methodologies are skewed for property numbers, suggesting in turn that the property drivers currently within the methodology have a strong correlation with actual cost related to property numbers.

3.2.3 ALMO-Retention

Table 7a and 7b set out the same statistics by whether there is an ALMO in place or whether a direct-provider (retention authority). Given the outlier data for London identified by authority type and by region above, this has further been analysed into ALMOs and direct providers for London and the rest of the country (labelled 'RoC' in the table).

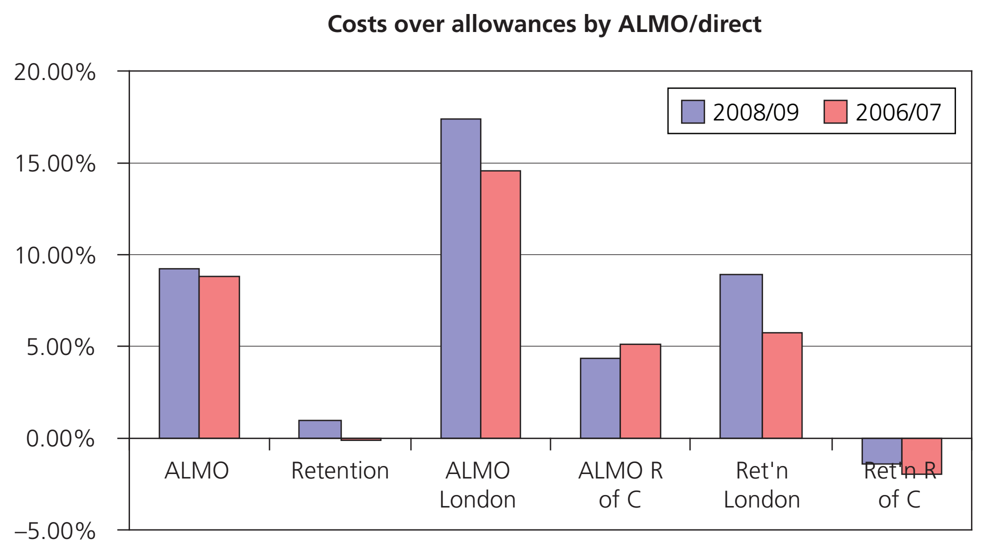
Table 7a: Net spend compared to allowances by ALMO-direct 2006–07 (£-unit)

Type	Prop 1–4–06	Net costs over MMA	Gen Mgmt £	Special £	Rep-airs £	HRA services £	Non rent income £	Net service costs £	M&M allowances £
ALMO	975,973	8.76%	997	387	866	**2,251**	430	**1,821**	**1,674**
Retention	951,527	–0.09%	731	362	891	**1,984**	401	**1,584**	**1,585**
ALMO London	293,180	14.61%	1,475	658	1,102	**3,236**	762	**2,474**	**2,159**
ALMO R of C	682,793	5.06%	792	271	765	**1,827**	288	**1,540**	**1,466**
Ret'n London	159,216	5.78%	1,478	632	1,256	**3,365**	956	**2,409**	**2,278**
Ret'n R of C	792,311	–1.95%	581	308	818	**1,707**	289	**1,418**	**1,446**
National	**1,927,499**	**4.51%**	**866**	**375**	**879**	**2,119**	**415**	**1,704**	**1,630**

Table 7b: Net spend compared to allowances by ALMO-direct 2008–09 (£-unit)

Type	Prop 1–4–06	Net costs over MMA	Gen Mgmt £	Special £	Repairs £	HRA services £	Non rent income £	Net service costs £	M&M allowances £
ALMO	918,273	9.29%	1,083	390	882	**2,355**	427	**1,928**	**1,764**
Retention	930,875	0.93%	799	363	951	**2,113**	412	**1,700**	**1,685**
ALMO London	272,850	17.41%	1,685	616	1,132	**3,433**	813	**2,620**	**2,231**
ALMO R of C	645,423	4.40%	829	294	776	**1,899**	264	**1,636**	**1,567**
Ret'n London	157,890	8.93%	1,549	583	1,356	**3,488**	996	**2,492**	**2,288**
Ret'n R of C	772,985	–1.46%	646	318	868	**1,832**	293	**1,539**	**1,561**
National	**1,849,148**	**5.18%**	**940**	**376**	**916**	**2,233**	**420**	**1,813**	**1,724**

Chart 3: Net service expenditure compared to allowances 2006–07–2008–09



The table shows that ALMO authorities in London appear to provide the primary backdrop for the authorities where net expenditure is considerably above allowances. In 2008–09, this is budgeted to have risen from 14.61 per cent to over 17 per cent.

ALMOs in the rest of the country and other London boroughs show a broadly consistent picture with the national average. Whilst this group is in line with the national average, the absence of London ALMOs from the group suggests that there is a propensity for ALMOs to spend at levels above retention authorities throughout the country. The same could be said for retention London boroughs.

Direct-provider authorities outside London spent on net service costs in line with or below allowances in 2006–07 and plan to do the same in 2008–09. This may be related to a greater propensity to make revenue contributions to support capital programmes in this type of authority in order to meet the Decent Homes Standard.

3.2.4 Summary around the pattern net costs compared to M&M allowances

The expenditure and allowances picture in London is unlikely to be easily disentangled. One suggestion is that London authorities spend more on services as a reflection of historically high levels of allowances between 1990 and 2004, a situation which is being changed since the current formula-basis for M&M allowances began to be implemented in 2004–05. An alternative is that current allowances do not reflect spending pressures in London. It is extremely unlikely that the extent to which these are true will be able to be determined without a more detailed investigation into the current and future spending pressures in London in particular.

A comparison to London-regulated RSLs is made below. Further work has also been undertaken to test these hypotheses by analysing the 2003–04 outturn compared to allowances; this is useful as the change in formulae led to decreases in allowances in many London authorities and increases elsewhere.

3.2.5 Comparison of 2003–04 patterns against 2006–07

Table 8 shows the gross and net unit cost position by region for 2003–04, how the statistics compare in that year between region and between 2003–04 and 2006–07 (for the same 185 authorities in the main analysis).

Table 8: Net spend compared to allowances 2003–04 and 2006–07

	2006–07	2003–04	Per Unit analysis 2003–04						
	Net service costs over MMA	Net service costs over MMA	Gen Mgmt inc RRT	Special Services	Repairs & Maintenance	HRA service expenditure	Less non rent income	Service costs net of income	M&M allowances
East	–1.81%	9.43%	490	268	686	**1,444**	340	**1,104**	**1,009**
EM	3.42%	18.29%	425	219	662	**1,306**	181	**1,124**	**951**
Lon	11.39%	14.98%	1,188	520	1,007	**2,715**	519	**2,196**	**1,910**
NE	–8.77%	9.08%	415	223	604	**1,242**	201	**1,041**	**954**
NW	4.16%	16.05%	482	269	714	**1,465**	261	**1,204**	**1,038**
SE	0.54%	15.56%	558	283	726	**1,567**	297	**1,270**	**1,099**
SW	–5.11%	10.68%	476	208	630	**1,313**	217	**1,096**	**991**
WM	10.32%	21.13%	507	188	800	**1,495**	165	**1,330**	**1,098**
YH	0.87%	4.79%	448	175	567	**1,190**	154	**1,036**	**989**
National totals	**4.51%**	**13.96%**	**642**	**295**	**753**	**1,690**	**291**	**1,399**	**1,228**

The contrast between the two years is striking. Net M&M costs were much higher than allowances in 2003–04 prior to the formula change in 2004–05 and two years of real increases in allowances (6 per cent real each year in 2004–05 and 2005–06). The spread of the relationship was much more even compared too the position in 2006–07 (and 2008–09) where the only region which spends much higher than allowances is London.

Table 9 shows how the various gross income and cost components have changed in percentage terms between 2003–04 and 2006–07 (both actual outturns).

Table 9: Movement in costs and income 2003–04 to 2006–07

Description	Gen Mgmt inc RRT	Special Services	Repairs & Maintenance	HRA service expenditure	Non rent income	Service costs net of income	M&M allowances
East	33%	26%	21%	**26%**	16%	**29%**	**44%**
EM	35%	26%	25%	**28%**	10%	**31%**	**50%**
Lon	24%	25%	15%	**21%**	60%	**12%**	**15%**
NE	55%	51%	14%	**34%**	79%	**25%**	**50%**
NW	81%	22%	7%	**34%**	56%	**29%**	**44%**
SE	31%	15%	14%	**20%**	19%	**20%**	**38%**
SW	13%	72%	22%	**27%**	41%	**24%**	**44%**
WM	25%	31%	14%	**20%**	8%	**21%**	**33%**
YH	59%	13%	27%	**37%**	25%	**39%**	**44%**
National totals	**35%**	**27%**	**17%**	**25%**	**43%**	**22%**	**33%**

There are variations between cost and income increases over the 4 year period. The average growth in general management costs was 35 per cent, service costs 27 per cent and repairs costs 17 per cent, a gross total of 25 per cent. Non-rent income has grown 43 per cent between these years and therefore net cost growth was 22 per cent. This compares to growth in allowances over the same period of 33 per cent.

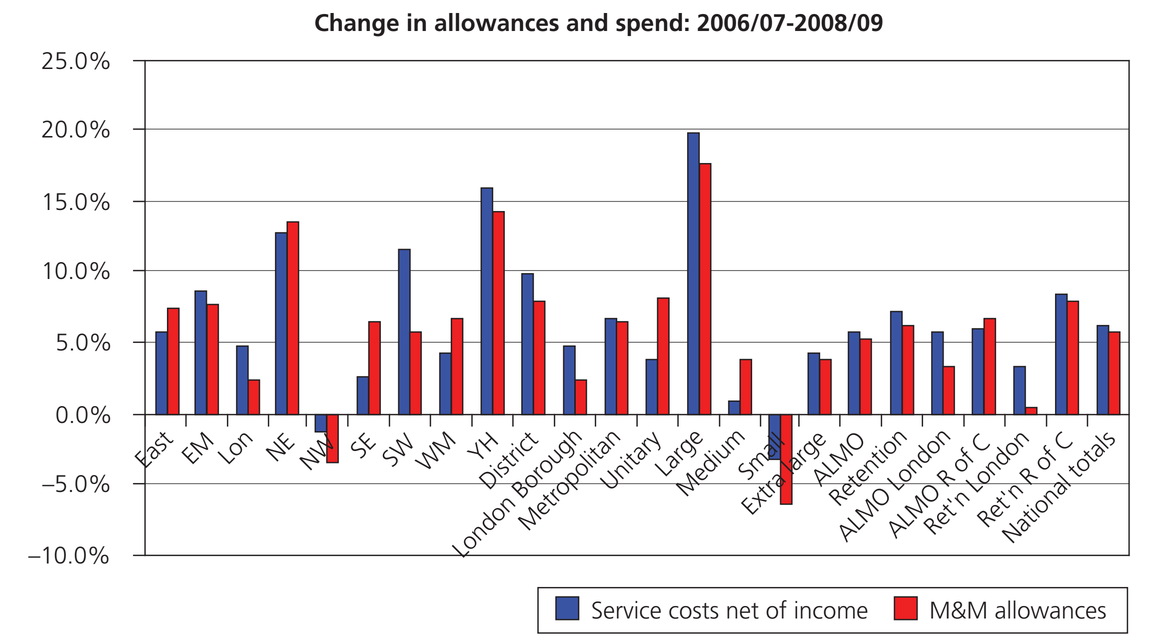
It can therefore be inferred that that allowances are rising towards costs in all areas except London. In London, overall net costs have fallen marginally compared to the increases in allowances but the main contribution has come from increased non-rent income.

This would not therefore appear to shed any light on the 'London issue'. What we can say however overall is that the increases in M&M allowance (33 per cent) have partly taken account of rent restructuring, partly spent on RCCOs (to better meet the decent homes standard) and partly spent on actual increases in spending. This strongly supports the notion that the current system provides for an effective system of control over M&M spending.

3.3 Changing patterns of financing services

Chart 4 below shows how net costs of services have changed alongside changes in M&M allowances over the two years from 2006–07 to 2008–09, for each of the analyses breakdown set out above.

Chart 4: changing patterns of spend and allowances



What is particularly striking from the chart is that where allowances have increased substantially in the last two years, net service costs are also budgeted to increase, suggesting strongly that the majority of increases in allowances are passed on into service delivery.

Where allowances have reduced over the two year period, in the North West and for small authorities in general, net costs have also reduced. Whilst there are some differentials such as costs in the South West rising faster than allowances and full increases in allowances in unitaries not coming through to services budgets for 2008–09, the pattern appears clear.

It is difficult to escape the conclusion that, in general, authorities reflect in service expenditure the changes in M&M allowances. This would tend to support the assertion that 'authorities spend what they get in allowances' supplementing service delivery with additional resources within the HRA from a combination of sources.

The main exception appears to be in London where authorities, and ALMO authorities in particular, spend considerably more on service delivery than reflected in allowances. Even in London however, a modest increase in allowances has only allowed a modest, less than average, increase in expenditure.

3.4 Patterns of expenditure within management and maintenance

Overall net service costs are around 5 per cent above M&M allowances. Set out below is an analysis at the national level of individual allowances against individual service costs comparing management costs with management allowances and maintenance costs with maintenance allowances.

There is a potential difficulty in this analysis as income is collected against the costs of both management and maintenance; however, for ease of analysis (and as the majority of contributions and charges are made for management services), non-rent income has been netted off management costs in this analysis.

However, the more problematic issue would appear to be within the treatment of the 'management of maintenance' function where there is overwhelming evidence that there is a mismatch between how this is treated within the allowances methodology and within actual accounts.

Table 10: management and maintenance costs against individual allowances 2006–07(£-unit)

Description	Management costs	Management allowance	percentage difference	Maintenance costs	Maintenance allowance	percentage difference	M&M costs	M&M allowance total	percentage difference
Unadjusted	825	594	39%	879	1,035	–15%	1,704	1,629	5%
Adjusted for mgmt of maintenance	*639*	*594*	*8%*	*1,065*	*1,035*	*3%*	*1,704*	*1,629*	*5%*

Table 10 highlights the difficulty raised by the treatment of the management of maintenance function. Whilst not explicit in the current formulae, allowance for this cost is provided for as an implied overhead within the maintenance allowance methodology. Conventionally, most local authorities would charge this cost under general management.

Based on the analysis below (section 8) of the management of maintenance within the core management functions identified by HouseMark, around 38 per cent of core management costs are due to the management of maintenance. Furthermore, the analysis at sections 8 and 9 below suggest that around 60 per cent of overall management costs are spent on 'core management'. Applying these estimates to an estimate of the implied 'allowance' level for the management of maintenance suggests that 22 per cent management costs are spent in this way.

If this allowance of 22 per cent of management costs is made and added to maintenance, the impact is as shown in the table and acts to show that actual costs are above allowances for both management and maintenance, albeit only marginally the case for maintenance.

Having been adjusted in this way, management costs were 8 per cent above management allowances in 2006–07. Maintenance costs were 3 per cent above allowances in 2006–07. The table therefore points to some measure of mismatch in both allowances, operating in similar directions, as opposed to the *prime facie* evidence that maintenance expenditure is now less than maintenance allowances.

The issue highlights the need for clarity in the treatment of the management of maintenance in the financing of M&M allowances moving forward.

3.5 Summary comparison net service costs to M&M allowances

Service costs were higher than allowances by 4.5 per cent in 2006–07 and this gap is budgeted to increase to 5.2 per cent in 2008–09.

Effectively, authorities are supplementing resources from M&M allowances on service related expenditure utilising HRA resources which are not intended for this purpose. At the very least therefore, this analysis suggests that there is a need to spend of at least 5 per cent above the level of allowances as this 'need to spend' is already being met from other sources of finance.

Apart from the outlying data relating to London, there is some evidence that authority type and particularly whether ALMO or direct-provider can influence cost patterns compared to allowances. The position between 2003–04 and 2006–07 does not however appear to offer any additional insight into the differentials.

The position of the treatment of the management of maintenance might be influencing an apparent mismatch between the level of costs of management and maintenance individually and the individual allowances.

4 Controlling expenditure for the 'rent income £'

4.1 Explanatory note

Levels of expenditure closely follow levels of income. The more income available to an authority, the greater the costs incurred. A further dimension to the analysis of total costs and method of controlling income levels therefore is to express patterns of expenditure in the context of a '£ of rent income'. This approach allows gross and net income and expenditure unit costs to be factored into a single expression of the *way* in which authorities spend the resources available to them and also enables the direct comparison to RSL expenditure levels in the next section.

The analysis summarised below shows the pattern of expenditure in 2006–07 and budgets in 2008–09 analysed into regions and the authority types set out in section 3 above.

4.2 Outputs

The tables below set out the costs and income for 2006–07 and 2008–09 expressed as related to a £ of rent income and therefore controls for both property levels and rent levels.

Table 11a: how authorities spent their rent income £ in 2006–07(£p-prop-week)

Region	Av rent	Rent as £	Less bad debts	Other income	Positive Subsidy	Gross income	Mgmt	Repairs	MRA	RCCO	Capital	Negative subsidy	Gross expenditure
Tot'l	**57.05**	**1.00**	**–0.01**	**0.14**	**0.03**	**1.16**	**0.42**	**0.30**	**0.22**	**0.05**	**0.17**		**1.16**
East	58.98	1.00	–0.01	0.13	0.00	**1.12**	0.32	0.27	0.21	0.03	0.02	0.26	**1.11**
EM	51.00	1.00	–0.01	0.08	0.00	**1.07**	0.32	0.31	0.21	0.02	0.12	0.06	**1.04**
Lon	71.60	1.00	0.00	0.22	0.22	**1.44**	0.57	0.31	0.21	0.05	0.26	0.00	**1.40**
NE	46.69	1.00	–0.01	0.15	0.06	**1.20**	0.40	0.28	0.24	0.06	0.20	0.00	**1.18**
NW	48.65	1.00	–0.01	0.16	0.16	**1.31**	0.47	0.30	0.23	0.07	0.25	0.00	**1.32**
SE	63.11	1.00	0.00	0.11	0.00	**1.11**	0.32	0.25	0.20	0.06	0.04	0.17	**1.04**
SW	52.76	1.00	–0.01	0.11	0.00	**1.10**	0.33	0.28	0.22	0.06	0.10	0.12	**1.11**
WM	53.86	1.00	–0.01	0.06	0.00	**1.05**	0.31	0.33	0.20	0.04	0.11	0.06	**1.05**
YH	47.05	1.00	0.00	0.08	0.08	**1.16**	0.37	0.29	0.23	0.05	0.20	0.00	**1.14**
Dist	56.42	1.00	0.00	0.11	0.00	**1.11**	0.31	0.26	0.21	0.04	0.04	0.21	**1.07**
LB	71.60	1.00	0.00	0.22	0.22	**1.44**	0.57	0.31	0.21	0.05	0.26	0.00	**1.40**
Met	48.96	1.00	–0.01	0.11	0.11	**1.21**	0.40	0.32	0.22	0.05	0.22	0.00	**1.21**
Uni	52.52	1.00	–0.01	0.09	0.00	**1.08**	0.35	0.29	0.22	0.06	0.14	0.01	**1.07**
Lge	56.87	1.00	–0.01	0.15	0.13	**1.27**	0.45	0.31	0.22	0.05	0.21	0.00	**1.24**
Med	59.82	1.00	–0.01	0.13	0.00	**1.12**	0.37	0.28	0.21	0.04	0.08	0.11	**1.09**
Sm	57.26	1.00	0.00	0.11	0.00	**1.11**	0.31	0.25	0.21	0.04	0.03	0.22	**1.06**
XL	54.69	1.00	–0.01	0.16	0.21	**1.36**	0.49	0.32	0.22	0.06	0.28	0.00	**1.37**
ALM	55.72	1.00	–0.01	0.15	0.16	**1.30**	0.48	0.30	0.22	0.04	0.25	0.00	**1.29**
Ret	58.40	1.00	0.00	0.13	0.00	**1.13**	0.36	0.29	0.21	0.06	0.09	0.09	**1.10**

Table 11b: how authorities budget for spend per rent £ in 2008–09(£p-prop-week)

Region	Av rent	Rent as £	Less bad debts	Other income	Positive Subsidy	Gross income	Mgmt	Repairs	MRA	RCCO	Capital	Negative subsidy	Gross expenditure
Tot'l	**62.85**	**1.00**	**–0.01**	**0.13**		**1.12**	**0.40**	**0.28**	**0.20**	**0.04**	**0.14**	**0.04**	**1.10**
East	65.67	1.00	0.00	0.11	0.00	**1.11**	0.31	0.24	0.20	0.03	0.02	0.32	**1.12**
EM	57.14	1.00	–0.01	0.07	0.00	**1.06**	0.32	0.29	0.20	0.03	0.10	0.12	**1.06**
Lon	80.52	1.00	–0.01	0.21	0.12	**1.32**	0.53	0.29	0.19	0.05	0.23	0.00	**1.29**
NE	51.87	1.00	–0.01	0.13	0.05	**1.17**	0.40	0.27	0.25	0.03	0.22	0.00	**1.17**
NW	49.15	1.00	–0.01	0.13	0.04	**1.16**	0.43	0.30	0.21	0.06	0.20	0.00	**1.20**
SE	66.51	1.00	–0.01	0.10	0.00	**1.09**	0.30	0.25	0.20	0.05	0.03	0.26	**1.09**
SW	58.44	1.00	0.00	0.11	0.00	**1.11**	0.33	0.28	0.20	0.07	–0.15	0.16	**0.89**
WM	59.80	1.00	–0.01	0.06	0.00	**1.05**	0.32	0.29	0.20	0.02	0.12	0.11	**1.06**
YH	52.27	1.00	–0.01	0.06	0.08	**1.13**	0.39	0.29	0.23	0.03	0.19	0.00	**1.13**
Dist	62.80	1.00	0.00	0.10	0.00	**1.10**	0.31	0.25	0.20	0.04	0.03	0.27	**1.10**
LB	80.52	1.00	–0.01	0.21	0.12	**1.32**	0.53	0.29	0.19	0.05	0.23	0.00	**1.29**
Met	52.92	1.00	–0.01	0.09	0.06	**1.14**	0.40	0.30	0.22	0.03	0.21	0.00	**1.16**
Uni	56.10	1.00	–0.01	0.09	0.00	**1.08**	0.34	0.29	0.22	0.05	0.02	0.07	**0.99**
Lge	62.56	1.00	–0.01	0.12	0.05	**1.16**	0.40	0.31	0.21	0.04	0.20	0.00	**1.16**
Med	65.45	1.00	–0.01	0.13	0.00	**1.12**	0.36	0.26	0.20	0.05	0.06	0.18	**1.11**
Sm	64.01	1.00	–0.01	0.11	0.00	**1.10**	0.35	0.26	0.20	0.04	0.05	0.21	**1.11**
XL	59.80	1.00	–0.01	0.15	0.14	**1.28**	0.49	0.29	0.21	0.04	0.20	0.00	**1.23**
ALM	61.58	1.00	–0.01	0.13	0.09	**1.21**	0.46	0.28	0.21	0.04	0.23	0.00	**1.22**
Ret	64.10	1.00	–0.01	0.12	0.00	**1.11**	0.35	0.29	0.20	0.04	0.05	0.16	**1.09**

In summary, the tables show the following.

On average, around 1p in the £ is offset against future bad debts in both years. Around 14p in the £ was raised as additional sources of income from service charges, non-dwelling rents and other grants and contributions in 2006–07. The rent income equivalent of the national gross HRA income including authorities in positive subsidy was therefore £1.16 in 2006–07, budgeted for £1.12 in 2008–09.

Nationally, in 2006–07 this was spent as set out table 9a:

- 42p on management (general management and special services), and this varies between 31p to 57p by region with the London region as the outlier.
- 30p on repairs, which varies 25p to 33p by region, a relatively modest variation when compared to management costs.
- 22p on major repairs allowance/depreciation and 5p on revenue contributions to capital, a total of 27p capital expenditure charged to revenue.
- 17p on net capital charges and interest within the HRA.

Subsidy varied between 'positive' 22p in London and 'negative' 26p in the East by region.

In 2008–09, the equivalent budgeted figures are:

- 40p on management (general management and special services), and this varies between 30p to 53p by region with the London region as the outlier.
- 28p on repairs, which varies 24p to 30p by region, a relatively modest variation when compared to management costs.
- A total of 24p capital expenditure charged to revenue.
- 14p on net capital charges and interest within the HRA.

Subsidy varied between 'positive' 12p in London and 'negative' 32p in the East by region, a reduction in all cases.

Key interpretations from the tables suggest that:

- There is a consistency of approach between authorities towards the utilisation of income towards repairs expenditure, despite variations in stock type and condition. Put another way, repairs expenditure per unit appears to be broadly consistent with the pattern of rent income per unit around the country.
- For management costs, however, the picture is very much mixed. Whilst there is some evidence that authorities in the North West spend much more of their rent £ on management than in other regions, the position is once again particularly marked within London as the outlier.

In overall terms, there is a reduction in the percentage of rent income committed both to service delivery and the stock within HRAs, and this reduction is primarily explained by the movement in HRA subsidy between the years. This is further analysed below.

4.3 Changing use of the £ of rent income

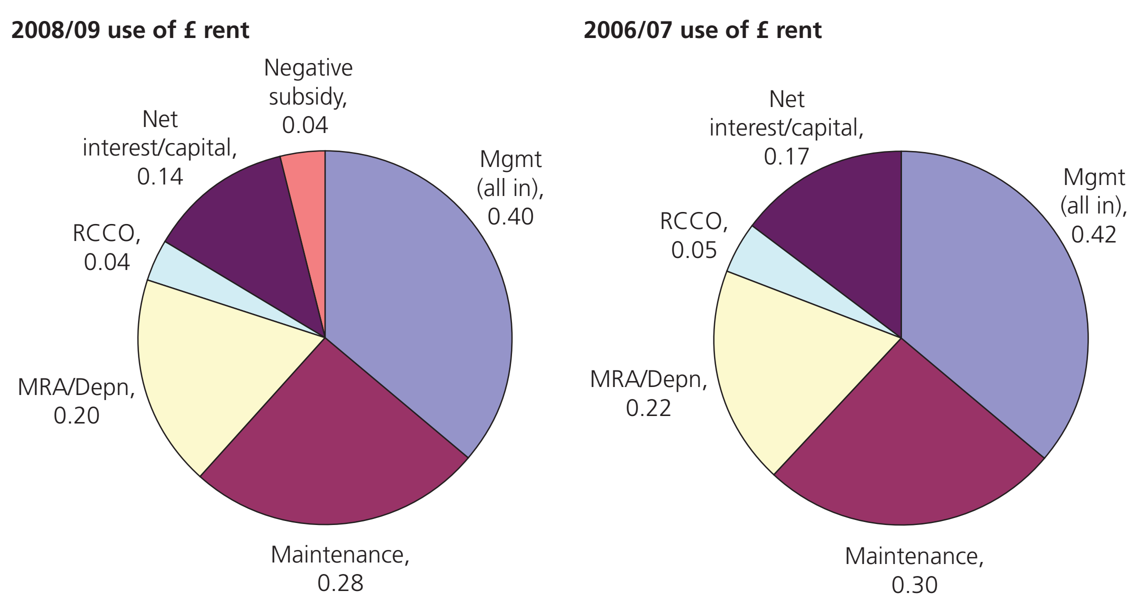
Table 12 shows the comparison at the national level of the use of the 'rent income £' between 2006–07 and 2008–09.

Table 12: Rent income £ between 2006–07 and 2008–09(£p-prop-week)

	2006–07	2008–09	Change
Average weekly rent	57.05	62.85	5.80
Dwelling rent	1.00	1.00	-
Less BDP	–0.01	–0.01	0.00
All other income	0.14	0.13	–0.01
Positive subsidy	0.03		–0.03
Gross income	**1.16**	**1.12**	**–0.04**
Mgmt (all in)	0.42	0.40	–0.02
Maintenance	0.30	0.28	–0.02
MRA-Depn	0.22	0.20	–0.02
RCCO	0.05	0.04	–0.01
Net interest-capital	0.17	0.14	–0.03
Negative subsidy		0.04	0.04
Gross expenditure	1.16	1.10	–0.06
Net income-expenditure	**0.00**	**0.02**	**0.02**

The above data is shown in the two pie charts below.

Chart 5: how the rent income £ is spent 2006–07 and 2008–09



The table and charts highlight the move in subsidy between years from 'positive' overall to 'negative' overall and how this has largely been reflected in a reduction in the proportion of rent spent on the stock and services within the HRA.

Put another way, 72p in the £ spent on services in 2006–07 is set to become 68p in the £ spent in 2008–09 and 27p revenue spent on capital (including MRA and RCCO) in 2006–07 will become 24p in 2008–09.

As positive subsidy of 3p in the £ is set to become negative subsidy of 4p in the £ in 2008–09, this analysis strongly exemplifies the powerful nature of the HRA subsidy system in controlling overall levels of revenue expenditure. It is further evidence that authorities, at the national level at least, spend whatever resources are available to them in the HRA (from rents, other income and subsidy).

5 Comparison to RSL income and expenditure

5.1 Methodology and explanatory note

The expression of how a £ of rent income is spent is particularly effective in making comparisons with RSLs, especially as RSL income is generally higher than for local authority HRAs.

A summary of the two sectors is set out below based on the analysis above for HRAs and the global accounts for the RSL sector published by the Housing Corporation. Within the RSL sector, there is a clear differential between the pattern for traditional RSLs and the pattern for transfer RSLs. This dimension to the analysis has therefore also been identified in the analysis below.

The global accounts have been utilised in order to make direct comparisons with HRAs in the context of the terminology in use for HRAs. We have therefore consolidated some lines, separated out some lines and excluded other lines completely on the basis that there is no direct comparison with HRAs. The latter applies in particular to gains-losses on disposal of assets which are deemed capital receipts in local authority accounting.

A further complication is that RSLs are subject to unrecoverable VAT for non-staffing services. Based on information contained within the global accounts, we have derived an estimate of VAT applying to the various headings within the RSL accounts in order to make comparisons with HRA expenditure on a like-for-like basis.

5.2 RSL comparison (overall-unit)

A comparison of the unit costs and income for the HRA sector and the overall RSL sector split by traditional RSLs and LSVT (large scale voluntary transfer) RSLs is set out in table 13. The figures within this table are quoted as gross of any adjustments made for VAT so that the overall position from the global accounts can be traced to the overall HRA position. Adjustments for VAT are made in the following sub-section.

Table 13: comparison of unit gross and net costs in 2006–07 (£-unit)					
	HRA	**All RSL**	**Trad'l**	**LSVT**	**Comments**
Properties	1,927,499	2,127,082	1,185,884	941,198	
	£-unit	**£-unit**	**£-unit**	**£-unit**	
Rents	2,966	3,185	3,314	3,023	
Service and all other income *	415	500	724	219	Service charges, SP grant and other income
Less bad debt prov.	–18	–34	–40	–25	
Positive subsidy	98	–	–	–	NB this figure projected to be negative in 2008–09
Total income	**3,461**	**3,651**	**3,997**	**3,216**	
Management	866	943	1,085	764	Includes all lease – rents – rates – taxes and other non-service – support costs
Services	375	499	687	261	Services and supported housing
Revenue repairs	879	878	831	937	Includes responsive, cyclical, voids, planned
Major repairs charged to revenue	785	491	290	744	For HRA this is the total of MRA-RCCO
Investment income	–55	–62	–21	–113	
Interest and debt charges	547	1,110	534	1,835	
Total expenditure	**3,397**	**3,859**	**3,407**	**4,428**	
Surplus before other adjustments	**64**	**–207**	**590**	**–1,212**	All RSLs have sales of fixed assets to offset interest charges; LSVT RSLs are able to deficit finance through their investment programmes

* *Note that LA non-rent income includes contributions towards expenditure explaining why it is higher than the gross cost of special services*

In table 14, RSL expenditure on services is controlled for VAT at 5 per cent on management costs and 10 per cent average for repairs and maintenance costs. The table derives a net management cost by offsetting all forms of non-rent income against management expenditure as the overwhelming majority of costs recovered relate to management-services. This enables a direct comparison between the management costs of local authorities and RSLs in 2006–07 and similarly for maintenance costs which is placed clearly in the context of nationally published final accounts data.

Table 14: comparison income and service costs 2006–07 VAT adjusted (£-unit)							
	HRA	All RSL	Trad	LSVT	RSL-LA	Trad-LA	LSVT-LA
	£-unit	£-unit	£-unit	£-unit			
Rents exc prov'n for bad debts	2,948	3,151	3,274	2,997	6.9%	11.0%	1.7%
Service and all other income	415	500	724	219	20.4%	74.1%	–47.3%
Income exc subsidy	**3,364**	**3,651**	**3,997**	**3,216**	8.6%	18.8%	–4.4%
Management	866	896	1,031	726	3.5%	19.1%	–16.2%
Services	375	474	653	248	26.4%	74.2%	–33.7%
Revenue repairs	879	790	748	843	–10.0%	–14.8%	–4.0%
Gross service costs	**2,119**	**2,160**	**2,432**	**1,817**	**1.9%**	**14.8%**	**–14.2%**
Mgmt costs net of non rent income	**825**	**870**	**960**	**755**	**5.4%**	**16.4%**	**–8.5%**
Repairs costs	**879**	**790**	**748**	**843**	**–10.0%**	**–14.8%**	**–4.0%**

Table 14 shows the following.

- Rent income for RSLs per unit is some 6.9 per cent higher than for local authorities.
- Authorities raise 83 per cent of the non-rent income raised by RSLs – this is somewhat counter-intuitive in that, by reputation, RSLs recover more of their service expenditure through service charges; it is suggested that the incidence of grants and contributions may be higher for local authorities.
- Management costs per unit in local authorities are 92 per cent of those for RSLs although RSL service costs, unlike HRAs, do include an element for unrecoverable VAT. Authorities spend more on management across the country than transfer associations but no doubt this reflects the low incidence of whole stock transfers in London and the major cities.
- Conversely, authorities and RSLs spend around the same per unit on day to day repairs and maintenance.
- As would be expected, the proportion of capitalisation of major repairs is much higher in traditional RSLs, perhaps reflecting both the greater degree of financial flexibility within the sector.
- Comparisons of major repairs charged to revenue are close between authorities and transfer RSLs.

After adjusting for VAT, from table 14 and the direct comparison of like-for-like net costs, this highlights the following.

- Whilst unit income for RSLs in some 8.6 per cent higher, unit costs overall are 1.9 per cent higher.
- There is a clear difference in the experiences for income and costs between traditional and transfer RSLs and in general, average local authority expenditure falls between the two RSL sub-sectors.

- Lower costs within transfer RSLs are almost certainly related to the type of authority which has transferred and the lower representation of London and metropolitan boroughs in transfer RSLs.
- Comparative maintenance costs appear to be on average 10 per cent higher for local authorities compared to all RSLs. As set out above, this may well be related to the greater flexibility RSLs have in financing expenditure on their stock as well as the average age and condition of that stock.
- Comparative net management costs appear to be on average 5.4 per cent lower for local authorities compared to all RSLs.

Decisions taken by RSLs on service expenditure are taken in the context of a clear financial choice open to landlords to deploy their rent and income resources towards their business planning objectives. Taken together, therefore, there is evidence to suggest that the average management costs and therefore that a 'need to spend which is being met by RSLs' is around 5 per cent above that for local authorities.

5.3 RSL comparison (based on rent income £)

In order to control for differing levels of rent income between the sectors, table 15 sets out the comparison between HRAs and RSLs in terms of the rent income £.

Table 15: comparison of the use of the rent income £ in 2006–07 (VAT adjusted)

	HRA	All RSL	Trad	LSVT	RSL-LA	Trad-LA	LSVT-LA
Average rent	57.05	61.25	63.73	58.13	7.4%	11.7%	1.9%
Rents	1.00	1.00	1.00	1.00			
Service and all other income	0.14	0.16	0.22	0.07			
Less bad debt provision	–0.01	–0.01	–0.01	–0.01			
Positive subsidy	0.03	–	–	–			
Total income	**1.16**	**1.15**	**1.21**	**1.06**			
Management	0.29	0.30	0.33	0.25	0.01	0.04	–0.04
Services	0.13	0.16	0.21	0.09	0.03	0.08	–0.04
Revenue repairs	0.30	0.28	0.25	0.31	–0.02	–0.05	0.01
Major repairs charged to revenue	0.26	0.15	0.09	0.25	–0.11	–0.17	–0.01
Investment income	–0.02	–0.02	–0.01	–0.04	0.00	0.01	–0.02
Interest and debt charges	0.18	0.35	0.16	0.61	0.17	–0.02	0.43
Total expenditure	**1.14**	**1.22**	**1.03**	**1.47**	**0.08**	**–0.11**	**0.33**

The major variations between the sectors within this analysis of the *way* the different sectors commit the £ of rent income are found in the treatment of the financing of capital expenditure where there is a greater reliance on capitalisation of repairs within RSLs no doubt arising from the additional financial flexibility within the sector and the reliance of stock transfer business plans on deficit funding.

For management and maintenance, higher proportions of rent income are committed to management costs within traditional RSLs than for local authorities but the opposite is the case for transfer RSLs. The position is reversed for maintenance where traditional RSLs spend less of the rent £ on repairs than authorities, less again than transfer RSLs.

The table above therefore supports the suggestion that local authorities spend a little less on management costs than all RSLs even after adjusting for VAT but that the opposite is the case for repairs and maintenance.

5.4 Comparing expenditure to RSLs by region (for London)

As part of the interim feedback to the findings of this report, it was suggested that testing for a varying pattern of expenditure in London within RSLs might reveal evidence about the spending patterns within London boroughs.

Table 16 shows the comparison between the costs of management and maintenance between London compared to the national average in 2006–07 for both sectors. In this table, we have necessarily had to equate the London 'field of regulation' operated by the (then) Housing Corporation with London operations despite the obvious contention that this will include properties outside London and that other regional fields include RSLs with stock in London. Nevertheless, the patterns do appear material.

Table 16: costs in London vs average for LAs and RSLs (2006–07) (£.-unit)

	London	Average	London over average
Operating costs	3,446	3,029	14%
RSL rent income	3,870	3,185	22%
LA Gross M&M costs	3,282	2,119	55%
LA Net M&M costs	2,451	1,704	44%
M&M allowances	2,201	1,630	35%

The table shows that gross operating costs in London RSLs are some 14 per cent above the national average whilst RSL rents in London are 22 per cent above national average rents suggesting that additional RSL income in London is committed in a greater proportion to stock investment in the widest sense than to service delivery.

For local authorities, gross costs exceed the national average in London by 55 per cent and net costs by 44 per cent. To an extent, this could be explained by additional allowances over the national average of 35 per cent but appears to be well in excess of the pattern of expenditure in London and other regions for RSLs.

The caveats set out above are relevant, particularly as the diverse stock holdings of RSLs would tend to reduce regional differences. Nevertheless, it is almost certainly possible to derive that London authorities and their ALMOs spend proportionately more than the rest of the country than their counterparts in the RSL sector.

5.5 Summary of comparisons with the RSL sector

A like-for-like comparison between gross and net costs adjusted for VAT between authorities and RSLs offers additional evidence that there is a need to spend both higher than current costs and higher than allowances. This need is developed through RSLs making flexible choices about resources are deployed.

The excess over what is spent by local authorities shows a mixed picture between maintenance, where the increased flexibility RSLs have is reflected in lower unit costs, and management, where the appropriate like-for-like comparison is that RSLs spend around 5.4 per cent more on management.

This higher expenditure is also reflected in rent income differentials suggesting that as rents increase in local authorities, there is a strong case for retention of an increased proportion of rent income for management and maintenance.

A comparison of London regulated RSLs compared to the national average and London boroughs to the national HRA average suggests that gross and net costs are proportionately higher for London authorities than for their counterparts in the RSL sector.

6 Other analyses

6.1 Explanatory note

During the course of the project, several suggestions for the variation of costs against possible drivers have been highlighted and tested.

Allowances are currently distributed according to formulae which include a factor relating to local cost factors. For management, this is the area cost adjustment and for maintenance, the building cost information services (BCIS) index. Both of these are distributed on a sub-regional basis and an analysis of the area cost adjustment is shown below.

There are an additional range of analyses; tables comparing net costs over M&M allowances against overall performance measures, against demographic indicators and against proportion of leaseholders have also been set out below.

6.2 Costs against sub-regional cost indices

We have compared the net cost of services over M&M allowance for each of the discrete 'sub-regions' within the area cost adjustment analysis. Table 17 shows the summary.

Table 17: net costs over allowances against ACA sub-regions

ACA adjustment factor	Net M&M over M&M (2008–09)	No. of LAs
1.00	–3.1%	71
1.01	6.9%	25
1.02	9.1%	25
1.03	–2.9%	2
1.04	–4.3%	7
1.05	–13.0%	2
1.06	9.2%	3
1.08	4.2%	1
1.09	4.7%	16
1.11	0.7%	3
1.14	–20.9%	9
1.16	31.0%	8
1.29	13.3%	12
1.49	16.5%	1
Total	**5.2%**	**185**

From this analysis, whilst there does not appear to be any great variation at the 'lower' levels of the ACA, there does appear to be a consistent experience at the higher end where costs net of income exceed allowances to a greater degree.

As it is for the central London authorities where the area cost adjustments are the highest, this output can be read in one of two ways:

- Either, the ACA does not adequately reflect higher prices of staff and materials in central London
- Or this is simply an association: the higher ACA authorities are those that have a higher propensity to spend for other reasons.

Further work might be merited in testing out the extent to which either of the above should be inferred although we it would appear that as there is little relationship between net costs and areas cost factors elsewhere, there may not be such a relationship in London either.

6.3 Costs against performance-standards

Data has been collected from comprehensive performance assessment landlord ratings and against inspection scores from full housing inspections undertaken by the Audit Commission. The CPA data is limited to CPA upper-tier authorities and therefore inspection results only compared for these.

6.3.1 Outputs

Table 18: net costs over allowances compared to inspection-CPA scores

Description	Properties 1–4–06	Net service costs over MMA	Comment
CPA landlord scores			
Blank	533,025	–1.3%	Lower-tier LAs with no CPA score given
1	150,078	10.4%	
2	778,126	4.7%	
3	249,589	12.2%	
4	216,682	0.0%	
Total	**1,927,499**	4.5%	
Inspection scores *			
Blank	533,025	–1.3%	Lower-tier LAs with no inspection score derived
Exc	404,784	2.8%	CPA authorities where no inspection has been undertaken
1	1,246	3.1%	
2	348,465	8.8%	
3	476,380	7.5%	
4	163,600	6.8%	
Total	**1,927,499**	4.5%	

** Note score 4 = equivalent of 3 stars, score 3 = 2 stars etc*

As will be seen, there appears to be no correlation between net service costs and performance scores as represented in this way.

6.3.2 Other research

The findings are potentially different to those within a study undertaken for the National Federation of ALMOs (NFA) in which net costs for three star ALMOs were higher than for one and two star ALMOs. It is suggested that as the analysis here has been undertaken at a very high level and included all authorities with a CPA rating, the tendency to hide differentials at lower levels of analysis is greater. It is understood that the NFA study applied to a very small number of ALMOs.

Nevertheless, further work on the data developed by the NFA might prove useful in determining whether there is evidence at the national level of a differential for the achievement of excellent services.

6.4 Costs and demographics

Demographic data at the regional level has been compared to net costs over allowances for a range of indicators as set out in the table below.

Table 19a: comparison of management and net costs against percentage elderly (£-unit)

	% elderly	Net costs over M&M Allce	General Management	Net service costs
E	33	–1.81%	650	1,423
EM	37	3.42%	573	1,472
L	25	11.39%	1,476	2,451
NE	35	–8.77%	642	1,304
NW	39	4.16%	871	1,557
SE	34	0.54%	730	1,528
SW	43	–5.11%	537	1,358
WM	33	10.32%	635	1,613
YH	38	0.87%	712	1,437
National	**34**	**4.51%**	**866**	**1,704**

As will be seen, there is no apparent correlation at the regional level between the proportion of elderly in the population and net service costs.

Table 19b: comparison of management and net costs against percentage workless (£-unit)				
	Percentage workless	**Net costs over M&M Allce**	**General Management**	**Net service costs**
E	52	–1.81%	650	1,423
EM	55	3.42%	573	1,472
L	49	11.39%	1,476	2,451
NE	66	–8.77%	642	1,304
NW	61	4.16%	871	1,557
SE	52	0.54%	730	1,528
SW	56	–5.11%	537	1,358
WM	55	10.32%	635	1,613
YH	57	0.87%	712	1,437
National	**55**	**4.51%**	**866**	**1,704**

The tables do not highlight any correlation between net service costs and the proportion of workless (defined as unemployed, retired and sick-disabled) at the regional level.

When deflating service costs for regional pricing factors as reflected in the allowances methodology, the comparison between net costs and levels of worklessness and proportion of elderly people does not reveal any correlation.

The demographic statistics above are based on the council housing population and therefore control for the overall demographics within the population as a whole. This highlights the absence of suitable data held at the national level relating to the demographics of council tenants.

6.5 Costs and proportion of leaseholders

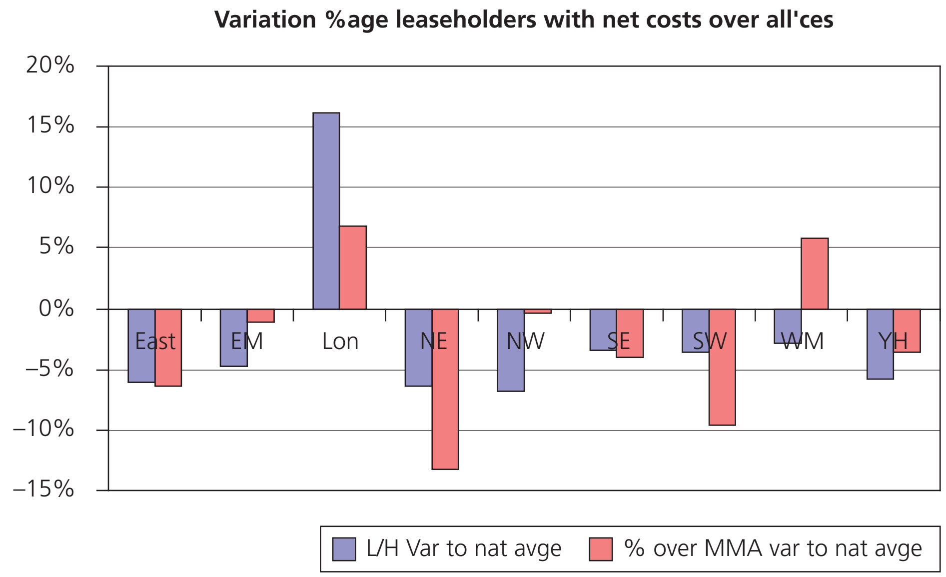
Data on leaseholder property numbers has been compared to net service costs and these over allowances. It should be noted that we have made some assumptions about overall leaseholder numbers from the sample organisations (see below) as there is no national dataset for leasehold properties. Numbers have been estimated based on extrapolation from the sample. There is a strong case for collecting leaseholder numbers as part of the annual subsidy base data return.

Table 20 compares management costs against the numbers and proportion of leaseholders.

Table 20: comparison of management and net costs against numbers and proportion of leaseholders (£-unit)

	Properties	Leaseholder	percentage L-H of tenants	Net service costs over MMA	L-H Var to nat avge	% over MMA var to nat avge	Cost var to nat avge
East	167,090	6,182	3.7%	–1.81%	38%	–40%	84%
EM	189,067	9,453	5.0%	3.42%	51%	76%	86%
Lon	452,396	117,623	26.0%	11.39%	265%	253%	144%
NE	142,526	4,988	3.5%	–8.77%	36%	–195%	77%
NW	199,026	5,971	3.0%	4.16%	31%	92%	91%
SE	186,004	11,718	6.3%	0.54%	64%	12%	90%
SW	118,873	7,370	6.2%	–5.11%	63%	–113%	80%
WM	218,415	15,289	7.0%	10.32%	71%	229%	95%
YH	254,104	10,164	4.0%	0.87%	41%	19%	84%
National totals	**1,927,499**	**188,758**	**9.8%**	**4.51%**	100%	100%	100%

Chart 6: leaseholder percentage vs net costs over allowances 2006–07



Taken together with evidence from the sample authorities (see below), the following broad conclusions are possible.

There is some correlation between total net costs and number of leaseholders although this may simply be a coincidence between higher costs in London in particular.

There does appear to be some correlation between net costs over allowances and the proportion of leaseholders. This is exemplified in the chart where there is clear incidence of net costs over allowances associated with variations in leaseholders compared to the national average.

The only outlier would appear to be the West Midlands where lower than average leaseholders is associated with higher than average net costs when compared to M&M allowances (but reference to section 3 highlights that this is only an issue in 2006–07 and the region returned to a more 'usual' output in 2008–09).

The proportion of leaseholders may therefore be a driver for differential costs and this broad evidence suggests further work in detail with authorities to understand the drivers locally. London authorities in particular included within the sample organisations below have provided evidence of an element of unrecoverable therefore residual costs of managing the leasehold portfolio.

6.6 Summary

This section has analysed suggested drivers and identified that there could be merit in further detailed work on one of these areas, namely the proportion of leaseholders, where there is evidence that net costs are correlated.

The analysis of cost patterns against sub-regional cost drivers for the area cost adjustment factor appears to suggest no correlation of propensity to spend greater than allowances than suggested by the factors. In other words, the factors included within current allowances appear not to be out of line with expenditure. However there is an *association* of higher cost factors with the higher propensity to spend above allowances in central London authorities.

The work has been affected by the availability of suitable datasets at the national level on which to compare cost trends against possible drivers.

7 Review of qualitative information from sample organisations

7.1 Explanatory note

At each sample organisation, a small focus group comprising senior housing and housing finance managers was conducted to address a set series of questions aimed at evaluating the changing pattern of housing service delivery. A summary of the main findings and key headlines is set out below.

7.2 How have service needs and expectations changed in the last six years?

Participants were asked how management and maintenance services have developed in the recent past, and in particular in the period since the last time the methodology for the setting of management and maintenance allowances was reviewed comprehensively, in 2002–03. The most common responses were as follows.

There is a greater emphasis on tenancy support and tenancy sustainment now than in the past, with support extending to direct life-skills support and 'hand holding' (such as debt and welfare management and counselling) and the direct support of vulnerable and elderly people in their homes.

There is a greater emphasis on the provision of quality communal services, exemplified by the installation and switchover to Digital TV.

As would be expected given the government's priorities towards the 'Respect' agenda, there is much more emphasis on dealing effectively with anti-social behaviour.

Emphasis is also changing within day to day and major repairs towards a focus on the environment; participants universally reported the focus 'moving on' from decent homes and investment in the physical fabric and towards environmental considerations such as car parking, landscaping, fencing and pathways.

In addition to new and different services, participants unanimously reported rising expectations about the basics of the housing management and repairs service. Several reported that expectations are now considerably in excess of what they were even three years ago, with an emphasis on 'right first time' repairs and quicker response times to issues around tenancy and estate management.

Those organisations with a higher proportion of leaseholders reported that demands of leasehold management are rising, partly as a result of the increased expectations of second generation leaseholders and partly as a result of the increased engagement with leaseholders arising from decent homes programmes. The London organisations in particular reported of the time spent dealing with leaseholders, some of that time is unable to be recovered as service charges; there is an analysis testing this hypothesis in section 6 above.

In the context of the brief for this evaluation, the outcome of the qualitative analysis is that there is a marked increase in emphasis on services which traditionally have been regarded as 'non-core' activities.

7.3 How have services actually changed in the last six years?

Participants were asked to comment on whether services had kept pace with the changing needs and expectations above. The common responses are set out below.

There is a much greater emphasis on the use of specialist and technical housing officers and services; the days of the generic patch-based housing officer have moved on and only a small proportion of officers within the sample organisations had generic responsibilities across all management functions.

In line with the focus on achieving the decent homes standard by 2010, there has been a general increase in investment programmes and procurement methods have changed to reflect modern methods including the greater use of partnering and joint procurement initiatives.

All participants reported a greater scrutiny of performance by customers, be that through formalised customer panels, or as reflected through the complaints system.

A wider range of access to services has been provided by all landlords in the last few years, with an increased emphasis on telephone and call centres with a reduced but maintained estate-based office presence. All reported a rapid expansion recently in internet and telephonic access to services.

A major increase in time, effort and potential reward has come from a large increase in the emphasis on partnership working with other agencies, particularly health and social care professionals in the context of supported housing and the police for anti-social behaviour initiatives. Most participants reported that the time spent liaising with partners was 'off the scale' compared to what it was even five years ago and that this had generally led to more responsive and tailored services.

Generally, resource provision for expanded non-core activities has come from a combination of increased service and other charges, grants (particularly Supporting People and other specific grants, for example for energy efficiency), for authorities some reliance on contributions from the general fund. There is to a degree, in all organisations, including the RSLs in the sample, a net cost which is met from the general rents. Experiences are however highly variable and there is no consistent pattern either in the extent of additional and expanding non-core services, or in the mechanics of funding these services.

7.4 Reductions in services

Participants were asked if any services had been discontinued in the last 6 years. There were no responses common to all save for a general observation that the new services are provided in addition to all of the basic ones of the past.

However, the closure of area offices was a consistent theme across the majority of the sample organisations.

In addition, some repairs have been ceased in favour of focus on decent homes and other major works.

The main message from the participants is that the traditional core services are still being provided but the ways in which they are provided is changing. Many felt able to comment that the costs of providing the basics have been controlled and reduced in the recent past and the efficiencies redirected to a wider variety of services, including part funding of non-core services. This postulation has been tested below and there is some evidence that this is the case.

7.5 Environmental and disabled adaptations

Participants were asked specifically to comment on these two areas of costs within landlord services which are not provided for within the methodology of management and maintenance allowances.

The local authorities commented that for disabled adaptations, there is a split of revenue and capital expenditure with revenue funding generally for some specific small scale adaptations and capital funding reserved for major adaptations.

The range of revenue expenditure on adaptations was reported between £10 (across all units) up to £160 across all units with an average between £80–100. These have been tested in the analyses below.

There is less consistency of patterns of expenditure on environmental works and investment. Participants reported expenditure of between £25–100 per unit from the HRA and an average in the region of £40–50 per unit; again these have been tested in the analyses below.

7.6 Issues around the HRA ring fence

Participating authorities and ALMOs were asked to comment on the operational issues arising from the continued ring fencing of the HRA within authority's general fund. The main areas identified were around anti-social behaviour, the unrecovered costs of supported housing services and around environmental and grounds maintenance on estates with a presence of right to buy home-owners.

Funding for dealing with 'low level' anti-social behaviour on HRA estates is universally met from the HRA. However, where the offenders are known to be private tenants or home owners, there is mixed picture of funding relating to low level support with some (a minority of the sample organisations) funding this element from the general fund.

For the 'high level', legal stage of ASB cases, despite the responsibility being a statutory one for the local authority, a number of HRAs are charged with the legal costs of dealing with council tenant offenders.

The residual cost (i.e. net costs unrecovered through grant or charges) of Supporting People contracts is of concern to over 70 per cent of the sample authorities. The RSL participants also reported a net cost falling on rents.

However, the treatment of environmental and grounds maintenance costs on housing estates with RTB dwellings appears to an extent to have been addressed in recent times, with a majority of sample authorities applying a charge to the general fund from the HRA to reflect the presence of RTB dwellings.

All authorities, without exception, reported a more difficult financial future in revenue terms for their general fund than for their HRA and there was a degree of scepticism about the wisdom of approaching corporate financial officers for additional contributions to HRA funded services, even when the case is apparently strong.

7.7 Commentary on core and non-core definitions

7.7.1 Options on approaches to defining core and non-core services

During the course of this project, a number of alternative potential approaches have been identified towards the definition of core and non-core services. Discussion has also taken place at the workshops organised by Communities and Local Government as part of the overall Review of Council Housing Finance.

Essentially, the approach towards the core-non-core debate could be taken from one of four angles:

1. Defining core services as those which will be regulated by the new Tenant Services Authority and non-core as those outside the TSA's regulatory remit; this would be consistent with the approach adopted in the Cave Review of 2007 where the authors identified the provision of soup kitchens by RSLs as clearly non-core and therefore outside the scope of regulation. It is understood that the TSA retains a sense in the start up phase of preparing to regulate core RSL services. This is therefore problematic in that there are a range of services which many would regard as additional or extra to the core landlord service (for example supported housing) where regulation by the TSA could feature.
2. Defining core services as those funded by the HRA and non-core as those properly financed by the local authority's general fund or other sources from the whole community (for example grant). This approach is attractive in that the delineation between core and non-core becomes close to the delineation between landlord and non-landlord. The disadvantage is that landlord services in this sense could therefore include all services provided by an authority, ALMO or RSL and they would be deemed core simply as a result of their financing.
3. A third approach might be to define core services as those properly financed by rent and non-core as those additional services financed by non-rent sources, additional income, the general fund and-or grant. This has the effect of equating core services with 'general management plus repairs' and non-core services with 'special services' and all other services financed by the HRA. This is attractive in terms of the financing of services and the provision of allowances but seems too blunt an instrument to define core services so narrowly as to exclude any references to estate and communal services, supported housing and grounds maintenance.
4. A fourth approach could define core services as that which it is appropriate to provide allowances for as part of a national redistributive system and non-core as those services where it is not appropriate. To an extent, this approach underpins the thinking behind the other three but importantly allows the debate to expand beyond a definition of services and core or non-core depending upon their source of finance. This approach might also allow whether tenants regard their services as

core or non-core to be incorporated into the debate, something it has not been possible to achieve within this review.

7.7.2 Towards an approach defining core, core plus and non-core services

Taking into account the discussions we have had with all stakeholders within this review, we are minded to adopt the following approach, whereby there is a resolution to pursue a three way definition: core, core plus and non-core.

In this approach, **core services** are clearly those provided to all tenants and funded by rents-allowances.

Traditional definitions of non-core services comprise both non-landlord services and those provided on an ad hoc and irregular basis where there is a wide diversity of funding. Generally costs are recovered by charges, grants and other non-rent sources of income but this does not recognise the growth in additional services provided by landlords which now form part of the expectations of services by tenants.

'Core plus' therefore allows a classification to be developed into which those services provided by the overwhelming majority of landlords, thought highly of by tenants but which are financed by non-rent sources of income (or should properly be financed in such a way) are placed.

This approach could achieve some clarity in the debate by beginning the development a shared understanding and consensus around definitions as follows:

- Core services would be financed by the HRA's rents and apply to receipt by all tenants, as well as those estate and communal services applying in a landlord management context for specific groups of tenants; these would be regulated by the TSA.
- Core-plus services would include supported housing and other forms of additional tenancy support and sustainment, funded by Supporting People grants or charges; other core-plus services would include additional estate and tenancy services.
- Non-Core services are those which are outside of landlord's finances completely (or the costs properly should be borne by the whole community); these would be clearly outside of TSA regulation and not subject to any financing in a national or local sense within assumed resources for the HRA.

7.7.3 Summary: relating core, core plus and non-core services to allowance methodologies

It is therefore possible to define 'core' as properly-landlord services sitting in the HRA for which allowances are provided to cover any costs net of income, grants, charges and contributions reasonably able to be raised against those costs. This would allow services to be defined as 'core'-'core plus' but which are service charge or Supporting People funded in line with what most tenants have described. For non-core services, it would be expected that funding would be from outside the HRA.

This would mean that allowances would cover the following analysed into three components as follows.

a) Core services charged against rents by (other) social landlords (i.e. RSLs) – with a view taken on the changing balance of these services and their drivers and the balance between management and maintenance (as these allowances are currently separate).
b) Those services which are not included in the current allowance methodology but which are being incurred (e.g. disabled adaptations).
c) Core plus services which are the subject of service charges and grant where there is a recognised unrecoverable residual cost to the HRA of these functions.

7.8 Core, core-plus and non-core costs: movement over time

During the course of this review, staff at participating organisations have pointed to a consistent pattern of continuous improvement in the provision of core landlord services over time, including the delivery of greater efficiency in the provision of these services.

There is widespread evidence via best value performance indicators and considerable contributions from HRAs nationally to the achievement of Gershon efficiency savings that services have improved and become more efficient – at the national level.

At the same time, the diversity and variety of services has increased significantly. There appears to be some basis therefore to the suggestion that as core services have become more efficient through a sustained focus on improvement, procurement and business process review, the resources released have been invested in a wide variety of new services: core-plus and non-core services popular with tenants and residents.

Direct evidence is difficult to quantify at anything other than a very local level and in many cases it is not possible to derive the long term position from the records held by authorities.

We suggest that there may be some merit in further research work aimed at clarifying the relationship between core, core-plus and non-core service costs over time and how these relate to performance standards, inspection ratings and other means of documenting improvements.

7.9 Exemplars of core-plus and non-core services

As part of the qualitative evidence collected, the report includes named case studies of new, additional and other non-core services provided by landlord organisations, together with the sources of finance. These are summarised below and help exemplify the extent to which social housing providers have not used financial constraints as a reason to hold back in the provision of new and innovative services which help increase the quality of life of their residents. More detailed expositions of these exemplars can be found at appendix 4.

Chester and District Housing Trust

Three community support officers originally funded by Home Office grant have been so successful in reducing crime and the fear of crime in CHDT's estates that the association decided to carry on funding them from ordinary income and expenditure activities when the grant concluded.

South Cambridgeshire District Council

A massive 80 per cent of residents are over retirement age placing great pressure on services for the elderly. Adaptations costs average £160 for all units within the stock and the service is recognised as an exemplar of good practice throughout the country.

Wigan and Leigh Homes

As part of the development of the ALMO's Decent Homes programme, an Employment Pathways scheme was set up funded from the HRA. Apprenticeships not total over 30 for young local people who might otherwise have faced a future of worklessness.

Blackpool Costal Housing

The 'Reassurance plus' initiative on the Grange Park estate is based around the intensive roll out of support for regeneration activities and in dealing with anti-social behaviour, litter and other estate issues. The initiative is now being rolled out to other estates within Blackpool.

London Borough of Wandsworth

Leaseholders represent around one half of the stock in Wandsworth. The council is widely acknowledged within London and nationally as an exemplar of good practice in leasehold management, and spends over £10m managing its leasehold portfolio. Despite best practice in the charging of leaseholders, there are some costs incurred which legally are unable to be charged and a net cost of leasehold management is borne by the HRA.

In all of the exemplars, the net cost of the innovation in service delivery and the meeting of needs and expectations in non-core service areas falls on general rents either within the HRA or within the RSL income and expenditure account.

7.10 Summary

The very wide variety of new services which are outside the description of ‘core management’ means that it is unlikely that the sector will easily arrive at a consensus as to the dividing line between ‘core’ and ‘non-core’ services, although there is consensus around the core management definitions utilised by HouseMark. It is therefore doubtful that particular drivers locally could be sufficiently robustly identified to form the basis for anything other than a generalised national allowance allocation.

There are a number of approaches to defining what is ‘core’ and ‘non-core’, ranging from a definition based on whether regulated by the TSA, whether services are funded from rents or additional income and whether they are properly fundable from allowances. We conclude that an approach based on equating ‘non-core’ with ‘non-landlord’ is likely to achieve greatest support.

However, an approach based on defining landlord services between ‘core’ and ‘core-plus’ (as distinct from non-landlord non-core services) could be attractive. New and additional services popular with tenants, where these is a consistent pattern of delivery around the country (albeit not in the level and costs), including estate and supported housing services, and where costs may or may not be fully recovered through non-rent income sources might be classified as ‘core-plus’; scope could therefore be developed for the net cost of these to be included in allowances. The definition of non-core should therefore be focused towards ‘non-landlord’ services chargeable to the community as a whole.

The ‘core-plus’ pattern is expanding but there is growing consistency in some areas such as anti social behaviour, supported housing, tenancy support and sustainment which to a degree is provided by all landlords. Expectations are that the emphasis on expenditure for core-plus service areas will increase in the future.

Core-plus and non-core services are funded from a wide variety of non-rent, charges, grant and general fund routes as well as a large proportion remaining which fall on rents within the HRA; the approaches locally to funding services are as varied as the range and type of services. RSLs also fund net costs of core-plus and non-core services from rents.

There is no reflection of core-plus services within the current allowance methodology.

8 Analysis of cost breakdowns for management and maintenance

8.1 Explanatory note: core and non-core services

Detailed data on income and costs was collected from each participating organisation and is analysed below on a consolidated basis to protect the need for confidentially.

A suggested approach to the breakdown of management and maintenance costs has been populated utlising data from the sample authorities and ALMOs. The basis of the analysis is to utilise the pattern of expenditure within the sample organisations broken down into the various headings and consolidated in order to estimate the national pattern of expenditure within management and maintenance.

The sample was selected to reflect distribution of properties by region, by authority size, by authority type and by whether there is an ALMO or direct-provider; the number of properties covered by the sample is around 13 per cent of the national total. The analysis therefore represents an approximation for the pattern of expenditure nationally.

Table 21: sample organisations as a proportion of the total stock

Authority	Reg	Type	Props
Barking	Lon	LB	19,678
Barnsley	YH	Met	19,839
Blackpool	NW	District	5,433
Chesterfield	EM	District	9,917
Leeds	YH	Met	60,063
Newcastle	NE	Met	30,533
North Cornwall	SW	District	3,393
Portsmouth	SE	Unitary	15,339
Sandwell	WM	Met	30,843
South Cambridge	East	District	5,643
Wandsworth	Lon	LB	17,278
Westminster	Lon	LB	12,333
Wigan	NW	Met	23,093
Total stock		**13**	**253,385**
Total retaining stock		**185**	**1,896,021**
percentage in sample		**7%**	**13%**

The analysis is aimed at separately identifying costs for core management services, other services (including those potentially defined as 'core-plus' and 'non-core') and for maintenance. It has therefore been necessary to adopt a definition of 'core', 'core plus' and 'non-core' costs initially utilising the HouseMark definitions of core services and then extending this to include in the analysis those additional services provided within the sample authorities.

In the absence of other national definitions therefore, and in order to expedite an analysis of costs in these terms, the initial approach to the definition of core management costs adopted has been to use the definitions within HouseMark benchmarking. There *is* consensus around those services identified as 'core' within HouseMark. There is some degree of consensus over the definition of other services which many regard as 'core', many as 'core plus' and many as 'non-core'.

8.2 Analysis of core management costs

The analyses below are based on the outputs developed by colleagues from HouseMark in supporting the work of this project.

The analysis covers some 452 housing organisations and is primarily based on the 2007–08 financial year. Some data has been inflated or recalculated to place all outputs on an assumed 2007–08 basis. Due to sample sizes within the HouseMark datasets the analysis is able regionally to be broken down into London, the South East region and the rest of the country, as well as by landlord type and size and whether HRAs are managed by ALMOs or direct-management and whether RSLs are traditional or stock transfers.

8.2.1 Division of core costs between types of service

The average split of core management costs within the HouseMark definitions are as set out in the tables below. The table below shows for completeness the split of core management costs within the entire HouseMark sample. These figures therefore include all landlords and organisation types.

Table 22: split of core management costs within HouseMark 2007–08

Type of core cost per property	Implied average percentage	Minimum	Maximum
Rent Arrears	16%	14%	19%
Tenancy & Estates Management	26%	20%	30%
Empty Properties	8%	6%	11%
Responsive Repairs	22%	18%	25%
Major & Cyclical Repairs	16%	11%	21%
Lettings	6%	2%	8%
Rent Collection and Accounting	7%	5%	9%
Total	**100%**		

Table 22 shows an analysis of the same data build up broken down into landlord type.

Table 23: split of core management costs by landlord type 2007–08

Type of core cost per property	National percentage	LA-ALMO	ALMO	Direct
Rent Arrears	16%	16%	15%	16%
Tenancy & Estates Management	26%	25%	29%	24%
Empty Properties	8%	8%	7%	9%
Responsive Repairs	22%	22%	21%	23%
Major & Cyclical Repairs	16%	17%	19%	15%
Lettings	6%	5%	4%	5%
Rent Collection and Accounting	7%	7%	5%	8%
Total	**100%**	**100%**	**100%**	**100%**

The tables highlight that of the total costs identified as core management services within 452 HouseMark organisational datasets, an average 38 per cent relates to the management of maintenance.

Variations in the proportion of expenditure between different services are most pronounced in lettings and in tenancy and estates management. Conversely, average proportionate expenditure on income collection and recovery is more consistent.

The minimum proportions within rents arrears, rent collection, tenancy and estate management and empty property management are all found within the groups of local authority district direct-providers of services. Conversely, these landlords spend the highest proportion of 'core' costs on managing repairs services.

The minimum proportions within repairs management are to be found within stock transfer RSLs.

The higher proportions of tenancy and estate management are found across London landlord providers and in particular within London ALMOs.

The higher proportions within income collection are found in traditional RSLs and in metropolitan authorities.

Taken together, there is a reasonable degree of consistency between the proportions of costs spent on core services between types of providers and only the proportion of core expenditure on tenancy and estates management within the ALMO group are close to being an outlier in terms of variation from the average.

This latter point is significant in that the consistency of cost analyses between authorities of different types allows an extrapolation of the build up of costs into service types to be developed. This in turn enables the current methodologies within the M&M allowance formulae to be tested against to the average national actual breakdown of costs.

8.2.2 Costs of core management services against total management costs

HouseMark collects the costs of core management services in detail and according to standard definitions, backed with an approach to establishing a minimum degree of integrity for the data. At the national and other levels with considerable datasets, there is therefore reasonable degree of confidence that the average costs are robust.

The costs of core management provision vary as set out in the tables below. The median core management cost is £590 per unit.

The equivalent median for local authority and ALMO providers is £503 per unit, although this may be understated due to the absence of residual client costs at ALMO authorities. To enable the comparison it is therefore assumed that an additional 5 per cent is added to the core costs on the basis that the average 'client HRA' cost at an ALMO authority is around 10 per cent of total service costs and that ALMOs manage around half the stock.

As these costs relate entirely to those services included within general management within HRAs, the median therefore provides a basis for cross-reference to the data collated at the national level for 2006–07 at section 3. The table below infers a comparison between core costs and total costs from the two data sources and provides therefore a reasonable approximation of the proportion of management costs.

Table 24: core management costs compared to total management costs

Description	£-unit pa
Core costs per HouseMark 2007–08	503
Adjust for element of excluded direct HRA costs in ALMO authorities @ 5%	528
Deflated to 2006–07 prices 2.5%	515
General Management costs 2006–07	866
Approximation of proportion	60%

It is reiterated that HouseMark sample costs reflect a very large sample of organisations across the country and are therefore held to represent a reasonable approximation of both the proportions and total costs for core housing management.

An approximation of the proportion of total costs of general management which are spent on core management functions, including the management of maintenance is therefore 60 per cent.

As there is an over-representation of London providers in the HouseMark sample, it is possible that this 60 per cent is at the higher end of expectations and evidence below suggests that core-plus and non-core costs may be higher in London.

8.3 Variation of core costs between regions

As set out above, due to smaller sample sizes within the HouseMark dataset outside London and the South East, the regional analysis is three ways. Table 25a therefore shows the relationship between median core management costs between providers in London, the South East and the rest of the country.

Table 25a: regional variation of core management costs

Description	Proportion of 'Rest of Country' (RoC) regions
Core costs normalised to 100 for all providers in the non-London and South East regions	100
Costs of South East districts-ALMOs compared to other regions	119–138
Costs of London boroughs-ALMOs compared to other regions	152–181

The table shows that according to the HouseMark sample, costs in the south east average between 19–38 per cent more than the rest of the country and in London this is between 52–81 per cent higher. Table 25b compares these ranges with the differences in costs within the 2006–07 national account estimate. Similar caveats around lead-regulated RSLs having stock in other regions apply (see section 5.4).

Table 25b: regional variations in HouseMark vs national accounts

Description	HouseMark differentials	National account differentials	2006–07 gross general management costs (£-unit)
Rest of country	100	100	*671*
South East	Average 128	109	*730*
London	*Average 165*	220	*1,476*
National average			*866*

Nationally, for the 2006–07 actual accounts, the extent to which South East general management costs exceed those for the rest of the country is around 9 per cent and for London 120 per cent. The large number of RSLs in the south east in the sample may account for the differential between the national position and authorities for that region.

However, assuming that the focus of core management costs in London authorities is the same as for the rest of the country, the propensity for additional costs in London local authorities to be driven by core-plus or non-core service areas appears very strong indeed. Furthermore, these appear stronger than for London based RSLs.

8.4 Variation of core costs between landlord types

Table 26 shows the relationship between median core management costs between providers in different types of landlord, based on the lowest cost group being direct-providers.

Table 26: variation of core management costs by provider type

Description	Median core management costs per unit	Variation to normalised national average	2006–07 gross general management costs (£-unit)	National account differentials
Direct-provider	465	92	731	*84*
ALMO	597	119	997	*115*
LA-ALMO	*503*	*100*	*866*	*100*

The table shows that core costs within ALMOs within the HouseMark sample are 19 per cent above average and for direct providers 8 per cent below. This compares to the national position in 2006–07 where ALMO *authorities* spent 15 per cent more than the national average on general management and direct providers around 16 per cent less.

Whilst these are broadly consistent, it might be inferred that there is less propensity within direct-providers to finance core-plus and non-core services from general management than within ALMOs; this would certainly match expectations that ALMOs generally provide a wider range of services than directly managed HRAs, not least of which because of their concentration in London and larger urban areas. These findings are consistent with the balance in the use of resources within the national accounting estimates at sections 3 and 4.

8.5 Repairs costs

The collection of data from sample organisations allows an estimate to be developed of the split of costs within repairs and maintenance between the main headings of responsive, voids, cyclical and planned repairs as well as miscellaneous headings (for example asbestos, water-sewage works etc).

This data has been utilised in a similar way to the HouseMark core management data above to develop an estimate of the national split of cost elements into different components and also allow a comparison to the current methodology within the allowance formulae.

Table 27 shows the analysis-build up of repairs costs for the sample authorities and ALMOs; these are also compared to the overall totals for 2006–07 and those budgeted for 2008–09.

Table 27: breakdown-analysis of repairs costs (derived from sample) 2007–08 (£-unit)

	Sample £-unit 2007–08	Normalised to 2006–07 actual	Normalised to 2008–09 budget	percentage of revenue repairs
Responsive	497	325	339	37%
Voids	210	138	143	16%
Cyclical	367	240	250	27%
Planned	86	56	59	6%
Disabled adaptations	4	2	2	0%
Environmental maintenance	50	32	34	4%
Other	130	85	89	10%
Sample average	**1,344**	**879**	**916**	**100%**

In overall terms, the costs of repairs within the sample is greater than the actual for 2006–07 or budget for 2008–09 suggesting an over-representation of higher cost authorities and ALMOs for repairs costs within the sample.

The table shows that just over one-third of repairs costs on average are spent on responsive repairs, just over one-quarter on cyclical, around one-sixth on voids repairs and the remainder on a combination of planned and miscellaneous repairs.

Environmental maintenance represents around 4 per cent of the total or around £50 per unit, whilst revenue costs relating to disabled adaptations are only a very small proportion of the total, up to £5 per unit overall.

It is clear that the overwhelming majority of the costs of disabled adaptations are being capitalised, nevertheless there is a small contribution from revenue which is not recognised within the allowance methodology.

8.6 Summary of costs of sample organisations

The analysis below shows a collation of the total costs of management and total maintenance within the 13sample authorities and ALMOs. This offers an extra dimension to the pattern of expenditure between management and maintenance and offers evidence of core-plus and non-core costs which fall on allowances within the HRA.

Table 28: collation of total sample unit costs (£-unit)						
	Sample £-unit 2007–08	**National £-unit 2006–07**	**National £-unit 2008–09**	**percentage in sample**	**National percentage 2006–07**	**National percentage 2008–09**
Front line and service management	965					
Corporate recharged costs	123					
General Management	1,088	866	940	39%	41%	42%
Special Services	330	375	376	12%	18%	17%
Repairs and maintenance	1,344	879	916	49%	41%	41%
Total management and maintenance	**2,763**	**2,119**	**2,233**	100%	100%	100%

The overall totals within the sample are higher than the national averages suggesting an over-representation of higher unit cost authorities and ALMOs in the sample, primarily relating to general management and maintenance, and an under-representation in terms of special services.

After normalising for overall costs, the balance of expenditure is reasonably similar between the costs components with general management costs representing between 39 per cent and 42 per cent of the totals. The balance of expenditure on maintenance is slightly higher within the sample.

Taken together with the findings from the HouseMark data above, the main conclusion to be drawn from this analysis suggest that the estimate of core management costs of 60 per cent of total general management costs could be seen as a maximum, particularly as the HouseMark costs relate to 2007–08, the same financial year as for the sample HRA outturns.

8.7 Cost types recognised as core-plus and non-core

Work has been undertaken both with data from the group of sample organisations and from information from HouseMark relating to the sample organisations on identifying the type and nature of non-core costs. Eleven originations included within the participants have HouseMark data provided.

8.7.1 HouseMark datasets

It is difficult to identify consistent patterns between the organisations. For example:

- Costs not included within core management costs identified in HouseMark returns vary between £18 and £214 per overall number of units.

- Where there is some commonality of definitions, the provision of tenancy sustainment and support costs (unrecovered by grants and charges) feature strongly.
- The costs of maintaining the housing register-choice based lettings schemes are identified as non-core services within the analysis.

8.7.2 Sample organisations

For the sample authorities and ALMOs, there is a similarly wide variety of services provided. In order to exemplify this diversity, the table below shows the unit costs of a standard classification of special services from the sample HRAs. Whilst some of these services might be classified into 'core-plus' and some classified as 'non-core', the table only includes expenditure which is clearly excluded from the HouseMark 'core management' definition.

Table 29: collation of total sample unit costs (£-unit)

	£-unit in sample	Min	Max
Heating, lighting, lifts	18	0	30
Estate service officers	71	0	409
Sheltered housing	54	0	208
Neighbourhood wardens	–43	–88	56
Tenancy support	9	0	20
Concierge	113	0	182
Cleaning	36	4	131
Grounds maintenance	59	12	60
Alarms-Central comm	10	–1	15
Misc special services	4	–46	75
Total of averages	**330**		

The table exemplifies the difficulty in reaching a robust view about the pattern and amounts of expenditure of this type. Many authorities do not provide the full range of services listed. Some authorities make a return for the HRA with income relating to these services exceeding costs charged to special services. Unrecovered costs of estate services can be as high as £400 per property in one authority. Clearly, there is consistency in the type of services of provided but not in the level, costs and income associated with them.

In this context, it is therefore highly unlikely that consensus will be achievable as to what represents an 'appropriate' amount of core-plus and non-core service as, necessarily, these services are closely related to local circumstances and the preferences of landlords and tenants and residents. Even when there is some consistency of service definition as there is for many of the headings within 'special services', there are very wide differentials between authority types.

8.8 Sources of funding for costs outside core costs

Evidence from the sample authorities therefore shows that around one-third (30 per cent) of the service costs within the HRA are incurred on estate services, supported housing and neighbourhood management (i.e. special services). For these purposes, net service costs incorporates gross costs less specific grants and service charges raised against these costs. An estimate of these for allowance purposes would therefore appear to be desirable. A by product of this would be to determine the extent to which the government might wish to develop policy around the enforcement of service charges.

A majority of core-plus-non-core costs are therefore recovered through forms of non-rent income, charges and grants. With reference to the sample organisations, table 30 lists those sources which cover in full or in part the costs identified to special services.

Table 30: sources of non-rent income within the sample for special services

	£-unit in sample	Non-rent income sources
Heating, lighting, lifts	18	Utility charges based on individual flats or communal systems
Estate service officers	71	Service charges
Sheltered housing	54	Supporting People grant and charges
Neighbourhood wardens	–43	Service charges, general fund contributions
Tenancy support	9	Supporting People grant and charges
Concierge	113	Service charges
Cleaning	36	Service charges
Grounds maintenance	59	Service charges, general fund contributions
Alarms-Central comm	10	Service-telephone charges
Misc special services	4	–

There is a wide variety of sources of finance for special services. An even greater diversity could be expected for non-core services included elsewhere within the HRA.

8.9 Summary of core and non-core cost analysis

Evidence from HouseMark and the sample authorities highlights the pattern of expenditure within core housing management, repairs and maintenance and between these and other services.

Other services might usefully be classified into ‘core plus’ including those services not funded from rents (or at least properly funded by other forms of charge-income such as special services, estate services and supported housing) and ‘non-core’ which would include non-landlord services. These latter might still be funded from the HRA through the choice of landlord providers and residents.

Core-plus services are financed from a wide range of sources and whilst there is some consistency of type, there is no consistent pattern of drivers able to be derived from the amounts of expenditure.

Taking into account all of the data sources, we estimate that a minimum of 40 per cent of the costs of general management are related to those services which are not included as ‘core management’ costs within HouseMark. Core-plus and non-core costs are very likely to be greater in London boroughs and likely to be higher for ALMOs and ALMO authorities.

9 Estimating the overall build up of costs from sample data

9.1 Explanatory note

The summary analysis below represents an estimate of the pattern of expenditure within the three main headings of core management costs, core-plus and non-core costs and maintenance costs based on the overall costs nationally in 2006–07 combined with inferred patterns of expenditure found within the sample organisations and within the HouseMark sample data.

Necessarily, data and evidence has been collected from a range of different sources and for different reference years. This limitation of data availability is not ideal. However, the consistency of messages from each of the three sources of data (national accounts, sample organisations and HouseMark datasets) are clear. The breakdowns set out below therefore represent a reasonable estimate of the *way* authorities spend on management and maintenance.

The breakdown is then compared to the methodology within the current formulae for management and maintenance allowances in order to test whether the pattern of expenditure inferred within the allowances is reflected in actual costs.

9.2 Overall outputs

Table 31 sets out an ***estimate*** of the pattern on management and maintenance expenditure within local authorities, expressed in terms of the 2006–07 actual outturn.

The table shows how the application of the proportionate split of core management costs according to the HouseMark sample is reflected in a national average estimate for each function and the proportion of management costs incurred on core functions per the HouseMark definition.

The proportionate split of maintenance costs between responsive, voids, cyclical and planned works is derived from the sample authorities within this review.

Table 31: estimated pattern of cost build up for management and maintenance 2006–07 (£-unit)			
Description	**Source**	**Overall build up**	**£-unit**
Rent Arrears	HMk	16%	80
Rent Collection and Accounting	HMk	7%	38
Tenancy & Estates Management	HMk	25%	131
Empty Properties	HMk	8%	42
Lettings	HMk	5%	25
Responsive Repairs	HMk	22%	113
Major & Cyclical Repairs	HMk	17%	85
Core management costs	**HMk**	**100%**	**515**
Core+-non core costs in Gen Management	**Sample**		**351**
General Management	**Nat 6–7**		**866**
Service costs	**Nat 6–7**		**375**
Responsive	Sample	37%	325
Voids	Sample	16%	138
Cyclical	Sample	27%	240
Planned and other repairs	Sample	20%	176
Total maintenance	**Nat 6–7**	**100%**	**879**
Gross management and maintenance	**Nat 6–7**		**2,120**
Non-rent income	**Nat 6–7**		**–415**
Net management and maintenance	**Nat 6–7**		**1,704**

In overall terms, therefore, core management costs are estimated for 2006–07 at £515 per unit and these represent around 60 per cent of general management costs. Core-plus and non-core costs represents therefore around £351 per unit. All other costs are built up to the national actual total of expenditure in 2006–07 of £2,120 per unit gross and £1,704 per unit net of non rent income.

9.3 Split of management costs against components of management allowance

The analysis within tables 32a and 32b below compares the split of costs of core management against the components contained in the formulae for the management allowance.

Two alternatives are presented: one assuming that the costs of managing maintenance are included in the management allowance and one assuming that they are not.

Table 32a: comparison of pattern of management costs against components of the management allowance assuming management of maintenance included

Description	Proportion of core costs	Split inc mgmt of repairs	Estimated implied split of allowance costs
Rent Arrears	80	16%	20%
Rent Collection and Accounting	38	7%	
Tenancy & Estates Management	131	25%	30%
Empty Properties	42	8%	10%
Lettings	25	5%	
Responsive Repairs	113	22%	40%
Major & Cyclical Repairs	85	17%	
Core management costs	**515**	**100%**	**100%**

From the table above, it will be seen that there is a close relationship between the split of costs of core management and the implied split of these areas within the management allowance methodology. The latter has been derived by first identifying the explicit parts of the formula relating to rents and empty properties and then controlling for property proportions between tenancy-estates management and repairs management.

Table 32b: comparison of pattern of management costs against components of the management allowance assuming management of maintenance excluded

Description	Proportion of core costs	Split exc mgmt of repairs	Implied split of all'ce costs
Rent Arrears	80	25%	20%
Rent Collection and Accounting	38	12%	
Tenancy & Estates Management	131	41%	70%
Empty Properties	42	13%	10%
Lettings	25	8%	
Responsive Repairs	113		
Major & Cyclical Repairs	85		
Core management costs	**514**	**100%**	**100%**

It should be noted that the above approach is the assumed methodology, ie that the management of maintenance is excluded from the management allowance calculation. The table shows that there is some correlation between the costs incurred in the lettings-voids process and the allowance formulae but that income collection and arrears recovery appear under-represented in the formula. Tenancy and estate management appears over-stated within the formula.

In general therefore, there would appear to be merit in a further detailed review of the balance of components within the allowance formulae, carried out as part of an exercise to determine the treatment of the management of maintenance.

9.4 Split of maintenance costs against components of maintenance allowance

The analysis in table 30 below compares the split of costs of maintenance against the components contained in the formulae for the maintenance allowance. The inclusion or exclusion of the management of maintenance is not therefore relevant in this comparison.

Table 30: comparison of pattern of maintenance costs against components of the maintenance allowance

Description	Overall build up	£-unit	Proportion of maintenance	Implied split of all'ce costs
Responsive	37%	325	37%	21%
Voids	16%	138	16%	8%
Cyclical	27%	240	47%	71%
Planned and other repairs	20%	176		
Total maintenance	**100%**	**879**	100%	100%

The table shows some evidence that the cost of responsive repairs and repairs to voids are understated within the allowance methodology and the cost of planned repairs as reflected in the allowance methodology is higher than actual costs. It is recognised that this could provide some incentive to reduce the costs of responsive and voids repairs.

Depending on the view taken around incentivisation, a review of the balance of repair areas within the financing of the maintenance allowance might be suggested although there is no suggestion that the drivers within each component should be reviewed. The issue is one of balance between planned and responsive repairs rather than the quantum of repairs and maintenance allowances of expenditure.

9.5 Summary

The above summaries bring together all of the analyses contained within this research and report to estimate an overall breakdown of costs for local authority management and maintenance.

At least 40 per cent of general management costs are additional to the core management costs analysed within HouseMark.

There is an under-recovery of special, estate and supported housing services costs which is both inevitable in terms of the nature of charging and grants and often reflects the choices made by tenants and residents.

Neither of these elements of the net cost of housing management is reflected in the management allowance methodology and there appears to be a strong case for their recognition. The diversity of services and drivers mean that consensus around a detailed formula-driven approach may not be easily reached; an option therefore might be to reflect a generalised additional allowance component based on some measure of demographics or property types. Much more detailed work would be required before allocations could be made.

There is evidence that expenditure within repairs is more focused on responsive and voids repairs than allowed for in the maintenance allowance methodology.

Expenditure on environmental maintenance averages up to £50 per property and this is not currently reflected in the maintenance allowance methodology. Disabled adaptations do not generally reflect in revenue expenditure but stakeholders are keen to see this large and growing capital liability reflected in future financing.

10 Summary recommendations

In addition to the overall findings, a number of recommendations have arisen as a result of the analyses undertaken. These are as follows.

Overall level of allowances: *high priority*

The overall conclusion is that there is evidenced spend on management and maintenance around 5 per cent above the current level of allowances. For management costs, this is additionally supported by comparisons to RSLs.

These needs should be funded by M&M allowances (or the equivalent in any reformed system) to prevent resources which are properly allocated to other areas of the HRA from subsidising service delivery.

Further work on additional components of allowance methodology: *high*

There are three elements of additional expenditure where it is recommended that consideration is given to reflecting costs within M&M allowances (or equivalent). Further work is suggested to arrive at a detailed basis for allocation. These are for:

- The residual costs of leaseholder management
- Environmental maintenance
- The non-recovered and non-recoverable element of HRA landlord services which are additional to core service, including special services, estate services, supported housing and tenancy support and sustainment.

Regional distribution of allowances: *medium*

To address the only clear outlier from the quantum of all analyses undertaken, more work is required as to the specific cost drivers within London authorities, especially a) whether the pressure for non core costs in London is greater compared to the rest of the country and b) the detailed drivers affecting whether there are residual and unrecoverable costs of leasehold management.

Balance between existing components within allowance methodology: *medium*

There should be greater clarity on the treatment and allocation of allowances for the cost of the management of maintenance within any revised formulae.

Alignment of the balance between elements within each allowance formula could be updated in order to more closely reflect the pattern of actual costs.

Collection of national data: *lower priority*

Subsidy claim data should be collected according to modern methods of accounting within the HRA consistent with resource accounting and the latest accounting practice. Leaseholder numbers should also be collected.

Appendix 1: Methodology

Methodology

This report of findings sets out the findings of a research project undertaken by HQN Limited on behalf of Communities and Local Government. The work was commissioned in early July and the bulk of the field work undertaken during July and August 2008. A summary of the report with high level executive summary has also been produced.

Research brief

The following is a schedule of the items forming the brief for this research and report. The brief asked us to investigate and analyse the following six areas.

7. Breadth-scope of landlords service currently being provided
   a. Local authorities and RSLs
   b. How the basket of services has changed over 10 years
8. How landlords coped with changing demands
   a. Income, efficiencies, trade-offs and whether landlords have stopped carrying out some work
9. Provide an analysis of the range of management and maintenance services
   a. Management: core and non core services
   b. Maintenance: responsive, voids, cyclical (exc planned-capital)
10. Break down current costs: by type, region etc
11. Comparison between RSL – LA sectors
    a. Competitive tendering and those not
12. Key drivers in terms of cost differentials
    a. Role of regional price differences

Overall scoping

In carrying out the above schedule within the brief, we have undertaken the following main components of analysis.

- Analysis of current costs between authorities and between authorities and RSLs.

- Analysis of costs (gross and net) compared to resources available from the HRA.
- Analysis of the changes in costs and resources between years.
- Identification, confirmation and, where possible, update of the cost drivers for management and maintenance, by reference to a series of sample organisations and to national datasets held by HouseMark.
- Comparison of data gathered from sample organisations to the drivers contained within the current methodology for the determination of management and maintenance allowances, as reflected in the research carried out by the Building Research Establishment in 2003.
- Identification where possible of the drivers and costs for 'non-core' services, those not covered in current allowance methodology.
- Identification locally of costs (both 'core' and 'non-core') outside the scope of allowances and identification of trends in choices made around the provision of services and the financing of those services.

Data references: local

A sample of 13 local authorities (six with ALMOs) and four RSLs were approached to participate in the research. Of these, 17 organisations have provided time, input and data into the project. The organisations are listed below. The organisations were selected in order to provide an appropriate balance of regional, size and ALMO-direct-provider differentials. The number of properties included within the sample authorities represents around 13 per cent of the total national HRA stock in 2008–09.

Where available, the following data sources were collected from participating organisations

- HRA-RSL social rented
  - Actual 2006–07, actual 2007–08, budget 2008–09.
  - Actual 2003–04 (where available).
- General management
  - Tenancy and estate management, voids, income recovery, rent collection, management of repairs, lettings, service management, corporate overheads, support services
- Special services
  - Heating-lighting, estate services, sheltered-elderly, tenancy support, caretaking-concierge, cleaning, grounds, alarms, leasehold management, neighbourhood-community wardens.
- Repairs
  - Responsive, voids, cyclical, aids-adaptations, environmental-CCTV, decoration, planned maintenance (for reconciliation purposes only).

- Gross costs and costs net of specific income.
- Relevant non-financial data: these include property mix, activity volumes and high level performance indicators.

A focus group of officers with series of set standard questions was carried out at each organisation. The qualitative outcomes of these focus groups are summarised within this report and scheduled in detail to the full report.

Participating local authorities and ALMOs

Authority – ALMO	Reg	Type	Props 1–4–07	Size	Mgt	Sub-unit £ est for 2008–09
London Borough of Barking and Dagenham	Lon	LB	19,678	Large	Ret	–876
Barnsley MBC with Berneslai Homes	YH	Met	19,839	Large	ALMO	263
Blackpool BC with Blackpool Coastal Housing	NW	District	5,433	Small	ALMO	48
Chesterfield BC	EM	District	9,917	Medium	Ret	–552
Leeds City Council with their three ALMOs	YH	Met	60,063	Very large	ALMO	538
Newcastle City Council with Your Homes Newcastle	NE	Met	30,533	Very large	ALMO	659
North Cornwall DC	SW	District	3,393	Small	Ret	–757
Portsmouth City Council	SE	Unitary	15,339	Large	Ret	–265
Sandwell MBC with Sandwell Homes	WM	Met	30,843	Very large	ALMO	55
South Cambridgeshire DC	East	District	5,643	Small	Ret	–2,101
London Borough of Wandsworth	Lon	LB	17,278	Large	Ret	–863
Westminster City Council with CityWest Homes	Lon	LB	12,333	Medium	ALMO	558
Wigan MBC with Wigan and Leigh Housing	NW	Met	23,093	Large	ALMO	31

Data was collected from Genesis Housing Group, Wakefield and District Housing Trust and Chester and District Housing Trust.

National datasets

The following national datasets were accessed for analysis during the course of this project.

Estimated HRA national account

This was generated from subsidy claims returns consolidated nationally for the ‘0602’, ‘0701’, ‘0702’ and ‘0801’ claims. The data contained within these claim forms is memorandum to the actual claim for resources and subject therefore to wide differential interpretation between authorities.

We have attempted, using our local knowledge, experience and contacts, and through cross referencing the sample authority data to the returns, to revise any obvious issues where data was missing, inappropriate or misreported; however it is highly likely that some anomalies remain. At the national level, these are immaterial, however, the further the drill-down into the data, the more likely that anomalies are material.

The estimated national account is based on gross costs, per unit costs, weekly per unit analysis of costs and expenditure analysed into a £ of rent income.

Estimated funding statement for services

This has been generated utilising a comparison of gross and net management and maintenance costs and compared to M&M allowances. This is the key statistic representing the 'net cost of M&M services' utilised throughout the report. As non-rent income which is disregarded by the subsidy system is netted off gross M&M costs, the statistic controls for differentials in the provision of special and communal type services which are more prevalent in authorities which large numbers of flats.

The statistics have been analysed into region, type, size and ALMO-direct-provider; a further analysis into ALMO-direct-providers in London as against the rest of the country has been developed.

An analysis of the statistics against sub-regions for area cost-BCIS purposes has been undertaken.

The national datasets have been established for the 2006–07 actual and 2008–09 budget with the majority of the analysis taking place relating to the 2006–07 financial year as this is the latest audited cost base available for HRAs and for RSLs.

HouseMark data

HouseMark data relating to core management costs has been utilised to supplement and cross-reference the data collected from participating organisations in order to arrive at an estimate of the national build up of management and maintenance costs. The analysis of core costs has been provided for stock transfer, ALMO and local authority benchmarking clubs. Work to identify types of non-core costs has also been undertaken by HouseMark as part of this project.

Miscellaneous national datasets

The statistics on the cost of services and how they relate to allowances have been compared to a range of national dataset statistics which have been suggested might influence the costs of delivery. These include:

- Comprehensive Performance Assessment outputs from 2006–07
- Demographics data by region for 2006–07.

Appendix 2: Note on current system of allowances

Note on current system of allowances

The HRA Subsidy system in its current form was created with the 1989 Local Government and Housing Act. The methodology of determining amounts of subsidy have developed since then, through resource accounting and the introduction of a requirement for business planning (2001) and the removal of rent rebates subsidy from the HRA (2004). The current system is therefore one of redistribution of revenue income from assumed rents to allowances for management, maintenance, major repairs and an assumed level of charges for HRA debt.

Subsidy is payable to or from an authority on the basis of a notional account as follows:

Income	
	Guideline rents Mortgage interest Interest on assumed deposits
Expenditure	
	Management allowance Maintenance allowance Major repairs allowance Assumed interest costs on debt Other reckonable expenditure
Net income = subsidy payable from an authority Net expenditure – subsidy payable to an authority	

Management and maintenance allowances to 2004

In the period from 1990–2004, the formulae for these was based on patterns of expenditure before 1990 adjusted for the number of properties and the proportion of flats held by authorities. There was widespread criticism that these allowances simply continued previous patterns of expenditure irrespective of any 'need to spend'. In 2002–03, the Building Research Establishment carried out a research exercise to establish an estimated 'national need to spend' model and to determine a more accurate estimate of the drivers of spending within authorities. The need to spend at the national level was in part reflected in real increases in allowances of 6 per cent pa in 2004–05 and 2005–06. The distribution of drivers led to the establishment of the current formulae methodology from 2004–05 to date.

Management allowances

The allowance formula starts with a national estimate of the fixed cost of housing management for an authority with no stock. Variable cost elements are added to an assumed national average stock basis, based on the number of properties in each authority. This point might be usefully referred to as the management allowance assuming all authorities had the same stock patterns and patterns of management expenditure.

This national base allowance is then successively varied around the national average for differentials in:

- Common facilities (numbers of flats) – 14 per cent of the total cost drivers.
- Medium and high rise flats – 20 per cent of the total cost drivers.
- Crime and relets – 23 per cent and 10 per cent respectively of the total cost drivers.
- Deprivation indices – lump sum addition depending on degree of deprivation.
- Area cost adjustment.

The outcome of this successive variation methodology is then divided into the national total pot for management allowances determined within the Spending Review to determine a 'target' management allowance.

Finally, there is protection for those authorities where the 'target' is lower than the previous year's management allowance; the transitional protection methodology varies between years and over time.

Maintenance allowances

By contrast, the maintenance allowance is built up from a detailed estimate of spending needs by property archetype. The four main areas determined are as follows:

- Responsive repairs: this includes base weight unit costs for each of 15 property archetypes adjusted first for a backlog factor which estimates the extent to which responsive repairs vary according to poor condition stock by archetype and secondly for a crime factor recognising the impact of crime and damage on respective repairs costs.
- Planned and cyclical repairs: this includes base weight unit costs by archetype.
- Void repairs: this applies relet statistics to an assumed percentage of responsive repairs which are aimed at making properties fit for relet.

- Crime related work to voids: crime statistics to an assumed percentage of responsive repairs which are aimed at making properties fit for relet.

These four components are summated and adjusted for the BCIS cost adjustment factor.

The resulting amount is divided into the national pot for maintenance allowances determined in the spending review.

Finally, transitional protection applies as for management allowances.

Appendix 3: Focus group scoping

Discussion forum – focus groups: scoping and outputs

Time	2 hours
Attendees	Head of Housing or equivalent, senior housing manager(s) and senior housing finance professional(s)
Facilitated	HQN to briefly introduce the project and current methodology for allocation of resources for service delivery

Agenda – topics for discussion

What services are provided to tenants and residents accounted for in the HRA?

What income or charges are collected towards these services?

How have service needs and expectations changed in the last 6 years?

How have services actually changed in the last 6 years?

What are you doing now that you weren't doing in 2002?

Is there anything that you were doing then that has been stopped or reduced significantly?

How is the emphasis of housing service provision changing over time? What changes do you expect to see in the coming period?

Specifically, what services and what are the costs of maintenance outside the property and other environmental issues?

Specifically, what are the liabilities towards disabled adaptations on your own stock and how are they changing?

Do you agree service standards with tenants? How have these changed in recent times and how do you expect them to change in the future?

What issues are there, if any, with the operation of the ring fence for the HRA?

Appendix 4: Case studies for core-plus and non-core services

Case studies for core-plus and non-core services

Introduction

At each of the focus groups-discussion forums held at the sample organisations, there was discussion of specific examples where organisations had promoted the delivery of core-plus, non-core or additional value added services funded from rents (or in the case of authorities and ALMOs ordinary revenue income focused on M&M allowances).

The exemplars within the next pages describe those examples of non core services where the participating organisation felt that there was a particular story to tell in terms of their local experiences. These are as follows:

- South Cambridgeshire District Council: disabled adaptations.
- Blackpool Costal Housing: 'Reassurance plus' initiative on the Grange Park estate.
- Chester and District Housing Trust: Community Support Officers.

South Cambridgeshire District Council: Disabled adaptations

Context

South Cambridgeshire is a rural district made up of over 100 villages. South Cambridgeshire District Council has a housing stock of 5,800 domestic properties and due to the demographics of its population has designated a large number of these specifically for older people.

As a result there are a significant number of such properties totalling approximately one-quarter of lettable stock (a proportion which has slightly increased year on year due to continued sales of family housing through the right to buy scheme). At present SCDC have around a quarter (1400) of its properties, mainly bungalows, as sheltered accommodation for occupation by older people.

Demographic

Research has shown that the average age of an SCDC tenant is 65 and this average has continued to rise due to improving life expectancy and care in the community initiatives allowing people to remain in their own homes. All tenants in older persons' accommodation will be at least 60 years of age and there will also be a significant percentage of older people still living in family accommodation. A conservative estimate is that approximately 30 per cent of our family housing is occupied by older people which given a total stock size of 4400 (excluding sheltered property) equals at least 1320 older households. If this is added to the number of tenants in sheltered housing it gives a total of 2720 households (46.9 per cent of all households in the district).

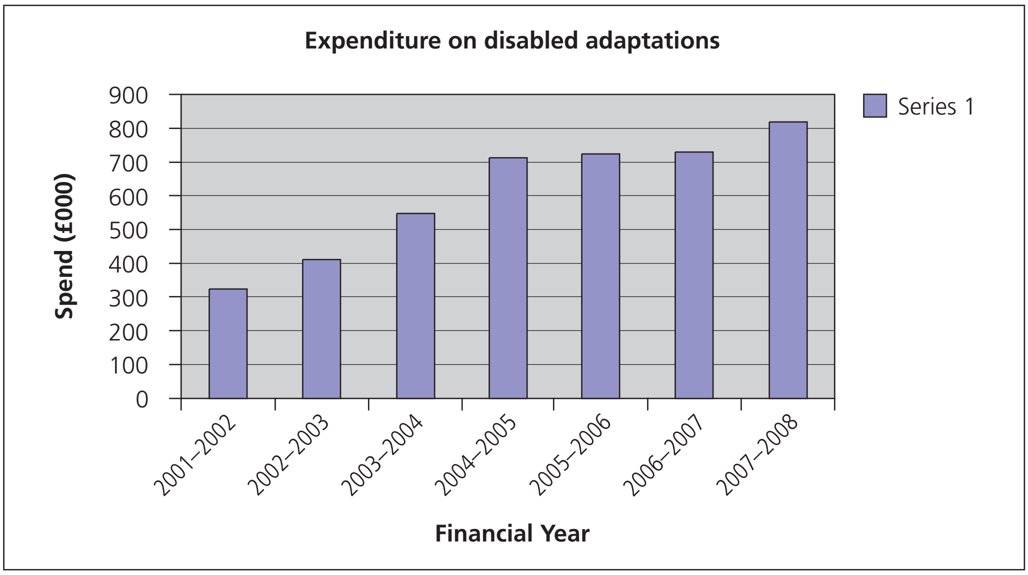
The number of disabled younger people living in SCDC property is less significant but if they are added to the above figures it would be likely that around 50 per cent of SCDC stock is occupied by people who have received or may require disabled adaptations in the future along with the added costs of maintenance and replacement.

Disabled adaptations

In the last financial year (2007–08) the authority completed three property extensions, 147 major adaptations (e.g. level access showers, ramps etc.) and 347 minor adaptations (e.g. grab rails, lever taps etc.) and there is always a backlog of at least 30 cases awaiting assessment and works to be completed.

Looking at the trend over the last seven years; the spend on disabled adaptations has increased year on year and the table on the following pages illustrates this and clearly shows the upward trajectory. Although the rate of increase had slowed for the financial years 2004–05 to 2006–07 it has increased again for the financial year 2007–08.

If inflation is taken into account and the 2001–02 figure is calculated at current prices the figure would increase from £326,000 to £389,000. Nevertheless this still shows that the figure for 2007–08 has more than doubled.



As previously mentioned, the rate of increase has slowed but this is to be expected as more properties become adapted but the level of expenditure is still increasing and there remains a constant waiting list for adaptations to be carried out.

As more properties become adapted the maintenance liability increases, currently £6,000 per annum is budgeted for regular maintenance and servicing but this looks set to increase. Also new innovation and development means that new types of adaptations are being requested e.g. the increased use of mobility scooters requiring storage and charging facilities.

Despite the projected high demand, cuts in the future expenditure on aids and adaptations are planned due to the effect of the negative subsidy on the HRA. SCDC's five year housing maintenance plan shows the budget for aids and adaptations reducing as follows:

2008–09	£800,000
2009–10	£400,000
2010–11	£275,000
2011–12	£275,000
2012–13	£275,000

It is clear therefore that given an ageing population within SCDC stock and the need to maintain and replace existing adaptations that any reduction in the adaptations or repair budget would have a significant impact on the quality of life of tenants or indeed their ability to remain in their home.

Blackpool Coastal Housing

Reassurance Plus is a new way of working across the most disadvantaged neighbourhoods of Blackpool. Experience has shown that people do not base their view of crime on statistics, but on what they experience and see happening around them. Very often a sense of insecurity is triggered not by serious crime but by signs of disorder such as vandalism and graffiti.

Blackpool's Reassurance Plus teams are multi-agency task forces that are accessible and known to the local community. They work with local residents to tackle problems quickly and directly. Listening to those who live with the problems is at the heart of the process, because they are best placed to identify sustainable solutions.

As well as gathering information on a daily basis, the teams hold regular meetings with the public and with local groups and agencies. These meetings can be themed focusing on specific issues and areas or general public events to identify priorities, invite comments and promote participation.

The Reassurance Plus teams consist of officers from the police, council and fire service. Although the people involved are from different organisations, in a Reassurance Team everyone answers to one person – the Neighbourhood Manager. This structure allows a swift, focused response to issues as they arise without the necessity for lengthy communications between agencies.

The council personnel in the teams include Public Protection, NEAT, Community Engagement, Private Housing Enforcement, and Environmental Protection officers. The Teams also work closely with other agencies like the local Primary Care Trust, Housing Associations, Youth Service, Probation Service – and many others. Close links are maintained with local Councillors and Community Groups.

One of those areas in Blackpool that has been identified as a priority and in need of direct action to tackle local issues is the Grange Park Estate.

The Grange Park Team comes under the control of Blackpool Coastal Housing, which has responsibility for the housing stock on the Grange Park estate. Although it does not sit directly within the council's Neighbourhoods and Communities Division, it has a close working relationship with the other two teams and consists of a similar mix of officers. The residents of Grange Park have a history of successful participation in projects and strategies to improve their neighbourhood including winning the Sustainable Communities Award in 2006. Before Reassurance Plus was established in the area, the local housing team had built up good relationships with community groups and leading individuals in the area, and this work has been built upon by the new members of the team. This combination of an enthusiastic local community working with a committed and experienced team of officers guarantees successful projects in the future.

Chester and District Housing Trust: RESPECT STANDARD INITIATIVES

PCSOs

The Trust has part funded three police community support Officer posts at £11,000 per year per officer. The agreement is provisionally for a three year term with the officers working in three areas of Chester (Lache-Handbridge, Blacon, Newton-Plas Newton-Upton).

They are expected to keep in constant touch with their respective housing officers and to get involved in assisting them in dealing with any tenant related reports of anti social behaviour, by conducting joint visits and interviews on complainants and perpetrators. They are encouraged to drop in at the local housing offices to share information and generally maintain a good liaison. The PCSOs are also committed to attending a six-weekly meeting with the community housing officers when new and ongoing issues of concern are discussed and solutions developed.

A good example of the PCSO scheme benefits is the Tomlins Terrace criminal damage-drug and alcohol abuse case. Tomlins Terrace consists of a number of maisonette type dwellings situated above a row of shops with two electronic access doors at either end of the building. The area is a police hot spot for incidents of criminal damage, under age drinking, using and supplying controlled drugs and general anti-social behaviour.

For some time and in spite of numerous calls to the police for help with this problem, youths continued to gain access to the building where they hung about the staircase areas daubing the walls and ceilings with graffiti, pulling fixtures and fittings from the walls and damaging the magnetic door mechanisms. The local residents and guests where threatened and intimidated and felt imprisoned within their homes.

A decision was made by the Trust to deploy CCTV on the staircase areas pending the result of a meeting arranged by the housing officer and PCSO to discuss the tenants' wishes. The system was installed and eventually provided clear images of drug dealing activities and criminal damage, both malicious and by graffiti.

The police identified the offenders, three known youths where arrested, charged and convicted and received non custodial community based sentences.

The whole area has now been repainted with doors and lighting renewed and CCTV installed. The tenants are delighted with the result and in the three months or so that have elapsed since the arrests no further incidents have been reported.

Another similar operation is currently being developed in the Chester Kingsway area involving joint working from Trust staff, PCSO, residents groups and police.

The Trust is presently working on other areas involving part funded officers including policing void properties that are presently suffering from incidents of damage

The PCSOs work for the Trust has been broadened over the course of the proceeding 12 months and now includes an expectation on them to conduct ad hoc 'welfare' visits on the elderly to help increase confidence and community well being.

Criminal damage-property repairs

The policy of the Trust is to repair free of charge any damage to property providing it is reported to the police and accepted as a crime. The free repair is triggered by the tenant phoning the Trust with the crime number. As the community has long since accepted that police no longer investigate such incidents this policy has to a large degree been treated with contempt with self inflicted damage by tenants in some instances simply caused to gain entry having lost or mislaid a key being reported as a crime and repaired by the Trust without obligation.

The Trust has now agreed with the police that each incident involving damage to Trust property and recorded as a crime will be visited by a representative and a police officer. This change in policy was explained to all tenants by letter. At this time internal arrangements have been made for all damage reports to come to the Trust's representative and the visits made sometimes without notice and by appointment when necessary.

Visits have uncovered incidents of blatant self inflicted damage with the cost of repair and call out submitted for recharge.

Other investigations have enabled the Trust to identify vulnerable tenants who have been targeted by bullies and subjected to threats, intimidation and damage but may be too frightened to report this to the police or other agencies. Visits from the Trust with a plain clothes police officer has resulted in the Trust being able to offer a level of support to these victims who would otherwise remained anonymous.

Police crime statistics for criminal damage have fallen dramatically and both agencies feel that this joint working venture has been influential in this success.

Respect standard in schools

The Trust has invested in efforts designed to influence children's choices outside of school. They have purchased 250 books from The Children's Safety Education Foundation and following consultations with the Cheshire Police schools liaison officer; agreement with the head of the nominated school and following a number of meetings; have commenced involvement with school pupils on 16 November 2007 at their school curriculum enrichment day. The pupils were in the 11yrs–13yrs group and the subject matter (drug-alcohol abuse, anti-social behaviour, bullying etc) contained within the books was delivered within the citizenship part of the school curriculum.

To enhance the launch effect of the programme the Trust had already arranged through Midlands based Community Impact and Train 4 Change to deliver a scripted drama presentation on local issues affecting the community to be delivered at the school without the knowledge of the children involved.

This went down particularly well and was followed by a question and answer session with work continuing on into the classroom and completion of a questionnaire by the pupils on what they thought about the consequences of ASB.

Ongoing meetings with the school head of year suggest that things are going well and the Trust has now agreed to develop the theme into 2009 by introducing drama into the school, and an agreed script is being written. The idea is for nominated children at Queens Park High to be trained by the actors with a view to them acting out the scripted drama to pupils at other schools. The Trust believes that the ASB consequences message will be far better received by kids watching their peers rather than adult strangers and far more cost effective enabling a far better prospect of rolling the programme out to other schools.

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