Communities and Local Government

Localism Bill: reforming the Annual Housing Revenue Account Subsidy system

Impact assessment

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Impact assessment

January 2011

Department for Communities and Local Government

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Title: Localism Bill: reforming the Annual Housing Revenue Account Subsidy system **Lead department or agency:** Department for Communities and Local Government **Other departments or agencies:** HM Treasury	**Impact Assessment (IA)** **IA No:** DCLG 0064 **Date:** **January 2011** **Stage:** Final **Source of intervention:** Domestic **Type of measure:** Primary legislation **Contact for enquiries:** Paul Crittenden

Summary: Intervention and Options

What is the problem under consideration? Why is government intervention necessary?

The Housing Revenue Account subsidy system is the current redistributive system for financing council housing. The system redistributes rental income from areas where there is assumed to be a surplus to areas where the income does not match need to spend. However, this system is overly complex and unsustainable; councils have no certainty about future income, no ability to plan long-term and few incentives to drive up efficiency. Services to tenants suffer as a result.

What are the policy objectives and the intended effects?

- End decades of complex central control and allow council housing to be managed and financed locally.
- Ensure councils have the incentives to actively manage on a long-term basis their housing stock rather than simply react to an uncertain annual funding formula.
- Increase local transparency and abolish the current opaque system where there is little connection between the level of rent charged and the resources a social housing landlord has to spend locally.

What policy options have been considered? Please justify preferred option (further details in Evidence Base)

A number of options were considered as possible ways of reforming the present system in a public consultation on the financing of council housing in July 2009. These options fell into two broad categories: improvements to the current system with longer determination periods of 3-5 years and either a redistribution or centralisation of debt; and a devolved system of responsibility and funding known as 'self-financing'. Authorities strongly favoured replacing the present system with self-financing, rather than a variation of the current system.

A subsequent consultation in March 2010 set this preferred option out in more detail and sought views on how it could best operate in practice. As with the July 2009 consultation, the underpinning principles and methodology were supported by the 178 councils who responded to this consultation.

When will the policy be reviewed to establish its impact and the extent to which the policy objectives have been achieved?	It will not be reviewed.
Are there arrangements in place that will allow a systematic collection of monitoring information for future policy review?	Yes

Ministerial Sign-off For final proposal stage Impact Assessments:

I have read the Impact Assessment and I am satisfied that (a) it represents a fair and reasonable view of the expected costs, benefits and impact of the policy, and (b) the benefits justify the costs.

Signed by the responsible Minister: Grant Shapps.. Date: January 2011 ....

Summary: Analysis and Evidence

Policy Option 1

Description: Introducing self-financing for councils' social housing

Price Base Year 2010	PRESENT VALUE Base Year	Time Period Years 30	Net Benefit (Present Value (PV)) (£m)		
			Low: £13.754bn	**High:** £18.492bn	**Best Estimate:** £16.123bn

COSTS (£m)	**Total Transition** (Constant Price)	Years	**Average Annual** (excl. Transition) (Constant Price)	**Total Cost** (Present Value)
Low	Optional	1	Optional	**Optional**
High	Optional		Optional	**Optional**
Best Estimate	£32.2m		£656m	**£11.691bn**

Description and scale of key monetised costs by 'main affected groups'

Cost to Exchequer of increased Management and Maintenance and Major Repairs Allowances (PRESENT VALUE £9.688bn) and additional funding for ongoing costs of disabled adaptation (PRESENT VALUE £1.972bn). This is not a direct cost to the Exchequer but instead represents the loss of the surplus which would otherwise be paid to Treasury in the current Housing Revenue Account subsidy determination system. Using realistic allowances ensures that the valuation of councils' housing businesses fairly reflects long-term costs. One off transition cost to LAs (PRESENT VALUE £32.2m).

Other key non-monetised costs by 'main affected groups'

Risk of mis-management of resources by local authority resulting in bailout.

BENEFITS (£m)	**Total Transition** (Constant Price)	Years	**Average Annual** (excl. Transition) (Constant Price)	**Total Benefit** (Present Value)
Low	Optional		£1.066bn	**£25.445bn**
High	Optional		£1.333bn	**£30.183bn**
Best Estimate			£1.200bn	**£27.814bn**

Description and scale of key monetised benefits by 'main affected groups'

Increase in efficiency due to authorities' ability to plan long-term (PRESENT VALUE £6.490bn) Homes are maintained to Decent Homes standard, avoiding the capital depreciation of the stock. The value of the avoided capital depreciation is estimated to be in the range (PRESENT VALUE £18.955bn-£23.693bn.)

Other key non-monetised benefits by 'main affected groups'

Improved quality of housing with its associated effects of better health, educational outcomes etc. Better disabled facilities, improved leaseholder management. Local authorities will have more control over their finances and their ability to plan which will enhance local decision-making, accountability and transparency. Opportunity over time for new build programmes on the back of income from rent and transfers.

Key assumptions/sensitivities/risks	**Discount rate (%)**	Green Book

Assumptions: the final valuation for each council will reflect their actual stock levels but the aggregate levels we expect to stay at approximately current levels. The Management and Maintenance costs and Major Repair costs will be built into the notional valuation of each council's council housing business at the level of need indicated by recent research conducted for government[1]. Risks - that assumed levels of income and allowances are insufficient for particular authorities' circumstances. That the borrowing constraints that this policy will place on councils' housing finance restrain local authorities' short-term cash flows, reducing their flexibility to deal with short-term income and expenditure mismatches.

Impact on admin burden (AB) (£m):			**Impact on policy cost savings (£m):**	**In scope**
New AB:	**AB savings:**	**Net:**	**Policy cost savings:**	Yes/No

Enforcement, Implementation and Wider Impacts

What is the geographic coverage of the policy/option?			England		
From what date will the policy be implemented?			April 2012		
Which organisation(s) will enforce the policy?			DCLG/HMT		
What is the annual change in enforcement cost (£m)?			None		
Does enforcement comply with Hampton principles?			Yes		
Does implementation go beyond minimum EU requirements?			N/A		
What is the CO_2 equivalent change in greenhouse gas emissions? (Million tonnes CO_2 equivalent)			**Traded:** N/A	**Non-traded:**	
Does the proposal have an impact on competition?			No		
What proportion (%) of Total PV costs/benefits is directly attributable to primary legislation, if applicable?			**Costs:** N/A	**Benefits:**	
Annual cost (£m) per organisation (excl. Transition) (Constant Price)	**Micro**	**< 20**	**Small**	**Medium**	**Large**
Are any of these organisations exempt?	Yes	Yes	Yes	Yes	Yes

Specific Impact Tests: Checklist

Set out in the table below where information on any SITs undertaken as part of the analysis of the policy options can be found in the evidence base. For guidance on how to complete each test, double-click on the link for the guidance provided by the relevant department.

Please note this checklist is not intended to list each and every statutory consideration that departments should take into account when deciding which policy option to follow. It is the responsibility of departments to make sure that their duties are complied with.

Does your policy option/proposal have an impact on…?	**Impact**	**Page ref within IA**
Statutory equality duties[2] Statutory Equality Duties Impact Test guidance	No	21
Economic impacts		
Competition Competition Assessment Impact Test guidance	No	21
Small firms Small Firms Impact Test guidance	No	21

[1] 'Evaluation of management and maintenance costs in local authority housing: Report of findings', HQN limited July 2009 and 'Review of major repairs allowance', Building research Establishment Ltd, July 2009

[2] Public bodies including Whitehall departments are required to consider the impact of their policies and measures on race, disability and gender. It is intended to extend this consideration requirement under the Equality Act 2010 to cover age, sexual orientation, religion or belief and gender reassignment from April 2011 (to Great Britain only). The Toolkit provides advice on statutory equality duties for public authorities with a remit in Northern Ireland.

Environmental impacts		
Greenhouse gas assessment	No	
Wider environmental issues	No	
Social impacts		
Health and well-being Health and Well-being Impact Test guidance	Yes/No	21
Human rights Human Rights Impact Test guidance	No	21
Justice system Justice Impact Test guidance	No	21
Rural proofing Rural Proofing Impact Test guidance	Yes/No	21
Sustainable development Sustainable Development Impact Test guidance	No	21

Evidence Base (for summary sheets) – Notes

Use this space to set out the relevant references, evidence, analysis and detailed narrative from which you have generated your policy options or proposal. Please fill in **References** section.

Independent research

Research into the actual costs of maintaining council housing stock to the Decent Homes Standard which forms the basis of the cost assumptions in the valuation of each local authority's council housing business:

- 'Evaluation of management and maintenance costs in local authority housing: Report of findings', HQN limited July 2009
- 'Review of major repairs allowance', Building Research Establishment Ltd, July 2009
- 'Modelling business plans for council landlords: Report on model inputs assumptions and outputs - final report' PwC, March 2010

Public consultations

- 'Reform of council housing finance', Communities and Local Government, July 2009
- 'Council housing: A real future', Communities and Local Government, March 2010

References

Include the links to relevant legislation and publications, such as public impact assessment of earlier stages (e.g. Consultation, Final, Enactment).

No.	Legislation or publication
1	Consultation and impact assessment in July 2009 (http://www.communities.gov.uk/publications/housing/councilhousingconsultation)
2	Consultation and associated documents including summary of previous consultation responses, impact assessment and conclusions of independent research in March 2010 (http://www.communities.gov.uk/publications/housing/selffinancingprospectus)
3	
4	

+ Add another row

Evidence Base

Ensure that the information in this section provides clear evidence of the information provided in the summary pages of this form (recommended maximum of 30 pages). Complete the **Annual profile of monetised costs and benefits** (transition and recurring) below over the life of the preferred policy (use the spreadsheet attached if the period is longer than 10 years).

The spreadsheet also contains an emission changes table that you will need to fill in if your measure has an impact on greenhouse gas emissions.

Annual profile of monetised costs and benefits* - (£m) constant prices

	Y_0	Y_1	Y_2	Y_3	Y_4	Y_5	Y_6	Y_7	Y_8	Y_9
Transition costs										
Annual recurring cost										
Total annual costs										
Transition benefits										
Annual recurring benefits										
Total annual benefits										

* For non-monetised benefits please see summary pages and main evidence base section

Evidence Base (for summary sheets)

Background to the review

1. The review of council housing was announced in a written statement to the House of Commons by the then Housing Minister on 12 December 2007.

2. Subsequently, a consultation document: *Reform of Council Housing Finance*, was published on 21 July 2009[3]. Alongside this, various documents detailing the research commissioned as part of this project were also published along with *A Review of Council Housing Finance: Impact Assessment.*

The review had the following guiding principles:

- tenant involvement in local decision-making about the homes in which they live should be strengthened, with greater choice and mobility introduced into the system
- standards and services at similar costs should be provided to all tenants regardless of which landlord (local authority or housing association) owns the property
- where appropriate, the system should allow more flexibility and greater devolution to the local level, supported by some degree of control and appropriate safeguards
- the system of funding council houses should not work against the broader policy of helping more tenants into work
- local authorities will continue to be landlords
- there will be a single cross-domain regulator
- the system should enable landlords to deliver improved efficiency and cost effectiveness in services
- to introduce greater transparency into the system and reduce administrative burden where possible

3. The July 2009 consultation outlined two potential broad options for reform:
   - the first entailed improvements to the current system, with longer determination periods of three to five years and either a redistribution or centralisation of debt
   - the second was a devolved system of responsibility and funding known as "self-financing," where each local authority could use the entirety of their rental income to finance housing services and repairs

4. Responses to the consultation indicated that the favoured option for replacing the present Housing Revenue Account subsidy system was the self-financing option. This would allow local authorities to finance housing services from the rent they collect on properties they own and take control over the financing of their housing stock. This would be in exchange for a one-off allocation of housing debt.

5. A total of 224 responses were received, 155 of these from individual councils. A wide range of other organisations participated. These include bodies representing social housing providers, arms length management organisations (housing management organisations), professional organisations, government departments or agencies, tenant groups, regional organisations, lobby groups, political groups, private companies, charities and trade unions. Of these respondents, only 6 per cent disagreed with the principles of self-financing and 9 out of 10 authorities who

[3] http://www.communities.gov.uk/documents/housing/pdf/1290620.pdf

responded were in favour of self-financing although there were reservations expressed with regard to details of the offer and in particular the debt levels implied by self-financing.

6. Issues surrounding the allocation of debt were very important for respondents, the most important being the condition that the amount of debt allocated at the local level must be acceptable.

7. Strong support for self-financing evident in the consultation responses reflects the fact that the principles behind self-financing have been developed over a period of time with extensive stakeholder participation.

8. The previously considered option of making improvements to the current system was not considered any further. This is because it was regarded by local authorities as not addressing the problems of the current system as clearly as a self-financing option of reform.

9. Following this initial phase one of the review, further work was carried out, adding detail and further depth to the initial analysis of the preferred option of self-financing for council housing finance. It mainly focused on distribution of housing debt allocations and on modelling expected future costs and income for each local authority. This further work led to the publication of the self-financing "Prospectus[4]". This document added detail regarding the parameters of the self-financing offer for consultation.

10. The consultation on the prospectus was accompanied by a consultation stage impact assessment[5].

11. The results of the consultation broadly supported the approach set out.

12. This final stage impact assessment updates the consultation stage work, reflecting changes to the self-financing proposal emerging as a result of the consultation, updated modelling and the new implementation framework to reflect the outcome of the Comprehensive Spending Review.

13. The initial requirements for a new system of council housing finance remain. They are that a new system should:
    - be fair and affordable to both tenants and taxpayers
    - be transparent, giving a clear and accurate picture of the balance for local support from central and local government
    - agree minimum standards of service and accommodation
    - ensure social rents which provide a platform for social and economic mobility for tenants
    - ensure landlords will continue to improve the quality and efficiency of services
    - ensure the Government is not exposed to unacceptable fiscal risks
    - provide more certainty and less volatility in funding of council housing

[4] DCLG Prospectus, Council Housing: A Real Future, 2010
[5] Impact Assessment, Council Housing: A Real Future, March 2010.

Problem under consideration - the current system

14. The current Housing Revenue Account housing finance subsidy system is a redistributive system based on notional estimates of income and costs. It takes account of a variety of costs associated with operating social housing. These include:
    - management allowance
    - maintenance allowance
    - major repairs allowance
    - ALMO allowance (up to 2010-11)
    - PFI allowance
    - caps and limits adjustments
    - interest costs on debt

15. Presently, annual estimates of the costs of each of these components are made centrally, taking into account an authority's individual circumstances, its type of stock and its relative need with respect to other local authorities with a Housing Revenue Account (taking into account factors such as deprivation and incidence of crime).

16. Income is assumed on the basis of local authorities charging the guideline rent for tenanted properties, with an assumption made of 2 per cent voids.

17. Where assumed costs are greater than assumed income, government provides subsidy to make up the shortfall. Where the reverse is true (assumed costs are less than assumed income), negative subsidy is paid to central government.

18. In recent years, the system has generated a growing aggregate payment to HM Treasury and this has been part of the impetus driving the need for reform of the system.

Treatment of debt

19. In the current subsidy system, another cost local authorities may face is debt interest payments on historic debt they have taken on in relation to housing. To compensate them for financing this debt, an allowance is paid to councils for interest costs on an assumed notional level of debt, the Subsidy Capital Financing Requirement (assumed housing debt). The debt is notional as some councils may have voluntarily paid down actual debt rather than simply meeting interest costs. The notional level of debt can be positive or negative, and the interest cost is determined by the Consolidated Rate of Interest which is a combination of interest rates faced on different types of actual borrowing and the annual average three month London Interbank Bid Rate (the rate at which banks borrow from other banks for loans of a three month maturity). This is deemed to be a reasonable reflection of the interest rate councils face.

20. These debt payment costs can form a significant portion of an authority's annual Housing Revenue Account subsidy entitlement and debt levels and can vary significantly between authorities. In aggregate, annual debt servicing costs accounted for under the Housing Revenue Account subsidy system totalled around £920m in 2010/11.

Rationale for intervention

21. The current Housing Revenue Account subsidy system is not presently delivering funding to council housing in an effective and sustainable manner. It is unpopular because:
    - it is volatile and does not allow long term planning as funding is decided on an annual basis based on new data and assumptions as well as being subject to political decision-making
    - in recent years, after redistribution has occurred, there has been a net surplus paid to central government, fuelling resentment from the sector and its tenants
    - it does not deliver sufficient funding to maintain homes to a good standard creating a backlog in repairs and there are components of management and maintenance costs (related to shared/communal areas) which are not being funded under the current system (see "Costs", page 11, for further details)
    - the disconnect between rents and the services that are being provided. Rents are increasing but these cannot be used directly locally to improve services
    - it is complex and difficult to understand. Furthermore, in recent years a number of ad-hoc adjustments designed as temporary fixes have added to the complexity of the system

Policy objectives

- To increase local transparency and abolish the current opaque system where there is little connection between the level of rent charged and the resources a social housing landlord has to spend locally.
- To give councils financial autonomy and therefore more accountability for their provision of housing services.
- To end decades of complex central control and allow council housing to be managed and financed locally.
- To ensure councils have the incentives to actively manage their housing stock on a long-term basis rather than simply react to an uncertain annual funding formula.

Do nothing scenario

22. The current system is centrally administered, with a high degree of central control over local decisions, with limited accountability. The framework has changed relatively little over the years, and many important decisions, such as rent levels, are set annually by central government. As rent setting is a political decision the levels can be volatile which makes it very difficult for local authorities to plan ahead effectively. Unpredictability of funding would mean inefficient contracts would continue to exist and works might be carried out when funds are available rather than when they are needed.

23. Research undertaken for the review has highlighted the need to increase management and maintenance funding for local authorities. Without extra funding:

    - there would be insufficient funding to maintain homes to a decent standard. Homes would gradually fall into a state of disrepair, meaning the standard of living could deteriorate considerably with subsequent knock-on health, economic and social effects among social housing residents. Alternatively, there would need to be a very large investment of capital in the future, much like the recent Decent Homes Programme, to bring the homes back up to a habitable standard

- if under-funding continues, stock transfer to a housing association may become an increasingly attractive option for local authorities, which would lead to a reduction in local authority owned housing stock.

The proposed new system

24. A devolved and localist system of financing for council housing whereby councils are able to manage their own stock using their own rents. This is achieved via a one-off debt settlement. The amount of debt allocated to each authority will be calculated on the basis of what the business is able to support since it will be based on assumptions about its income and expenditure needs over 30 years. This 30-year cash flow of income and expenditure will be converted into a capital valuation using standard discounted cash flow techniques. If this valuation is lower than the amount of housing debt for which a local authority currently receives support through the Housing Revenue Account subsidy system, government will meet the difference. If the valuation is higher than the debt supported by Housing Revenue Account subsidy, the local authority will be required to pay government the difference.

25. The assumption we have used to calculate income is the continuation of a social rent policy where council rents will be aligned or "converge" with housing association rents in 2015/16 and then move on to the same common formula where rents increase by RPI+0.5 per cent per annum. The rent assumption in the valuation will therefore include a straight line convergence to the formula level by that date.

26. The expenditure used for this calculation has its origins in the cost assumptions used under the present system but will be more generous by lowering the valuation of the business to reflect commissioned research into the actual costs of managing, maintaining and repairing council housing stock after representations that the sector was under-funded and generating a repairs backlog. Reports by consultants (BRE and HQN[6]) into actual costs were published as part of a consultation in July 2009 and are available on the Department's website. DCLG commissioned further work on how the evidence in these reports about funding needs could be incorporated into a self-financing valuation. A report on this by PricewaterhouseCoopers (PwC) was published in March 2010 as part of a further consultation exercise[7]. We will apply the methodology proposed by PwC for distributing the level of funding identified in the earlier reports.

27. Under self-financing, each local authority would be expected to produce a 30-year business plan. The cash flows would be determined by forecast rental income less their uplifted costs of repairing and maintaining stock and their debt servicing costs.

[6] Evaluation of management and maintenance costs in local authority housing: Report of findings', HQN limited July 2009 and 'Review of major repairs allowance', Building Research Establishment Ltd, July 2009

[7] Modelling business plans for council landlords: Report on model inputs assumptions and outputs - final report' PWC, March 2010

Summary of costs and benefits

28. The following table details the estimated costs and benefits for the reform:

	Costs	Benefits
Self-financing model **Net Benefit £13.754bn to £18.492bn**	Increased Management & Maintenance, Major Repairs: £545m per year for 30 years – (PRESENT VALUE £9.688bn.) Increased funding for disabled facilities adaptation: £111m per year for 30 years – (PRESENT VALUE £1.972) Cost of implementing a new system: Estimated £32.1m (based on £181.5k/LA for 172 LAs). Cost of rescuing failing authority: not possible to cost. Loss of receipt from authorities with positive stock valuation who opted for transfer. **Total = £11.6921bn** + cost of rescuing failing LAs.	Efficiency savings due to ability to plan long-term and optimise the cycle of repairs and replacements planned over 30 years. (Est. PRESENT VALUE £6.490bn.) Improvements to quality of life, health and work opportunities – not possible to be monetised. Homes are maintained to Decent Homes Standard, avoiding the capital depreciation of the stock. (Est. PRESENT VALUE range from £18.955bn to £23.693bn.) More ability to build new homes – with subsequent increased income and sales. Improved local accountability and transparency. **Total = £25.445bn to £30.183bn** + improvements to quality of life.

Sources and details of costs and benefits

Costs

Increased Management and Maintenance Costs and Major Repairs Allowance

29. Research was commissioned during the initial stages of the Review of Council Housing Finance to assess the appropriateness of allowances in the HRAS System compared to costs. This comprised the *Evaluation of Management and Maintenance Costs in Local Authorities*[8], conducted by the Housing Quality Network (HQN) and the *Review of the Major Repairs Allowance*[9], conducted by the Building Research Establishment Ltd (BRE).

30. HQN research indicated that authorities currently spend around 5 per cent more, on average, than their allocated allowance on management and maintenance costs.

[8] CLG research, Evaluation of Management and Maintenance Costs in Local Authorities http://www.communities.gov.uk/publications/housing/managementmaintenancecosts
[9] CLG research, Review of the Major Repairs Allowance

BRE research[10] concluded that, in order to properly fund the existing housing stock, it was necessary to increase major repairs allowances by an average of 24 per cent.

31. Subsequent work commissioned from PwC[11] built on these estimates, adapting them slightly as it sought to use the information contained in the report to disaggregate the uplifts on allowances to local authority level.

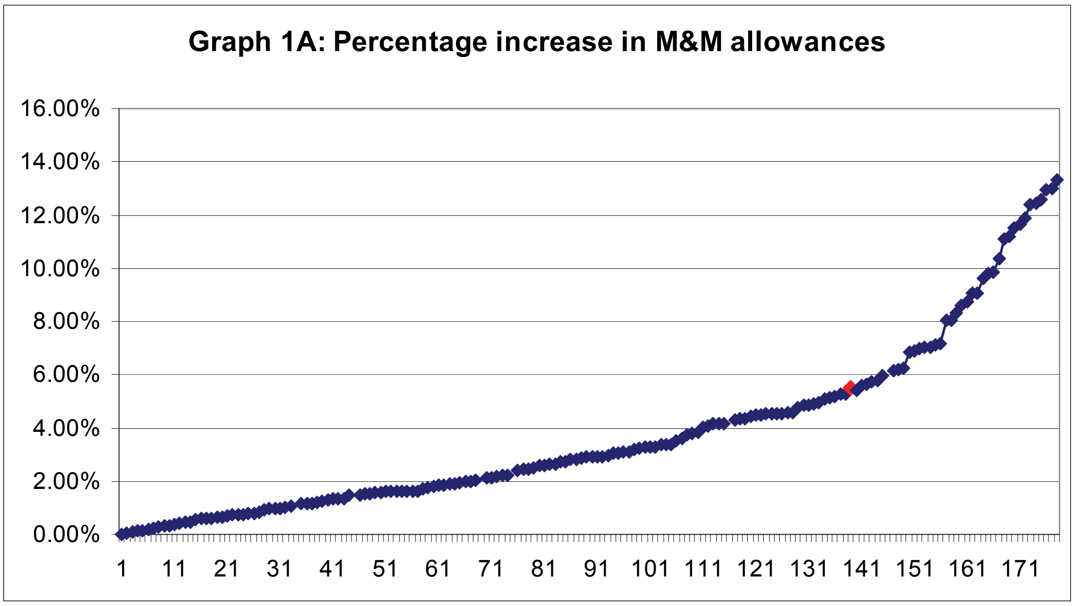
32. While PwC based their work on the earlier HQN and BRE research, they made a number of small changes:
    - that 100 per cent rather than 95 per cent of stock should be used to calculate overall allowances uplifts. This was because BRE's assumption that up to 5% of properties are empty at any one time was rejected as inconsistent with other assumptions and not appropriate for a 30-year valuation, as we expect virtually all properties will be occupied for at least the majority of the period
    - cost assumptions regarding medium- and high-rise flats were altered slightly to provide more maintenance funding

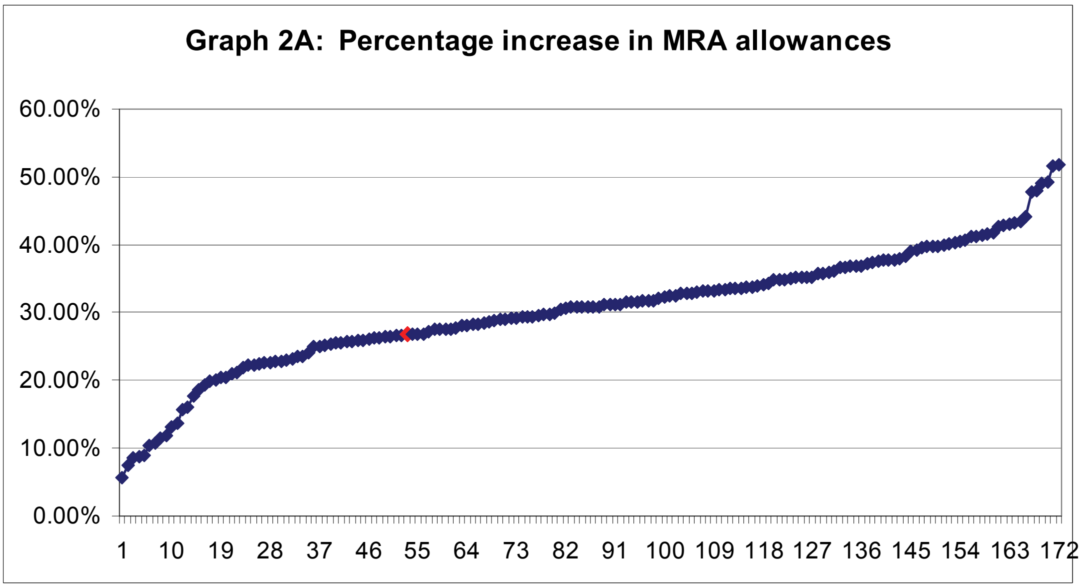
33. After these adjustments, the combined average management and maintenance uplift in allowances is 5.5 per cent and the average uplift in major repairs allowances is now 28.1 per cent. This produces a national average major repairs allowance per dwelling of £956 per dwelling per year and average management and maintenance allowances of £2,061 per dwelling per year.

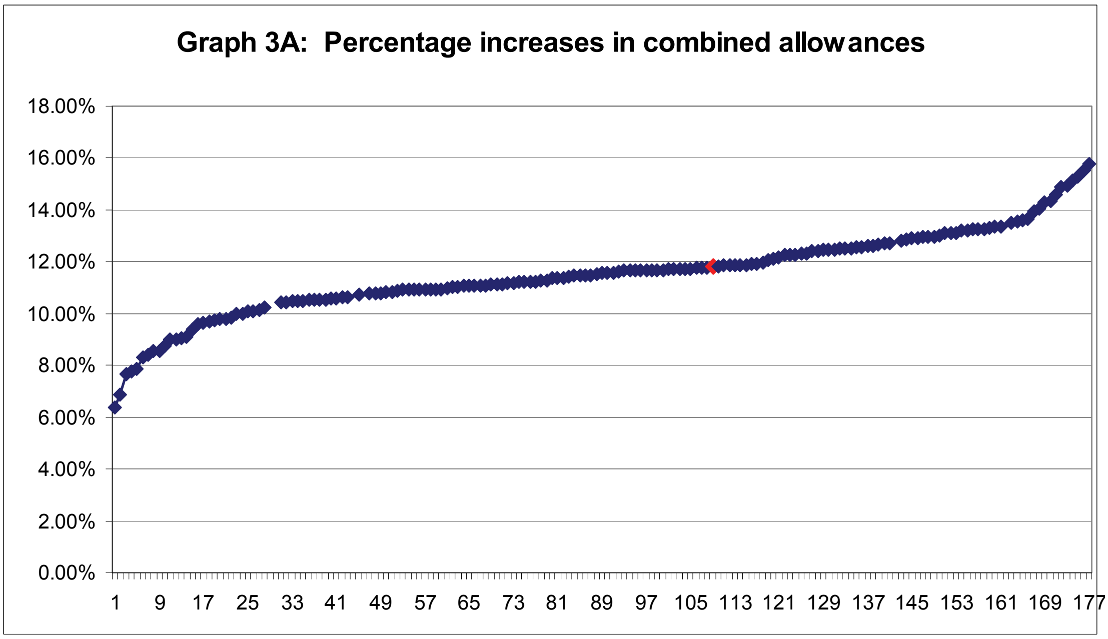
34. Combined, the uplifts in allowances amount to £545m per year. Over 30 years, discounted at a 3.5 per cent discount rate this has a present value of £9.688bn. See Annex 1 for details of the annual costs and calculation of the present value. This is not a direct cost to the Exchequer but instead represents the loss of the surplus which would otherwise be paid to HM Treasury in the current Housing Revenue Account subsidy determination. The ring-fence ensures that any increase in allowances remains within the Housing Revenue Account and cannot be transferred to the General Fund to finance other spending.

35. The three charts below show the proposed distribution of uplifts in management and maintenance and major repairs allowances by local authority. When combined, the range of uplifts is between 6.36 per cent and 15.79 per cent.

[10] http://www.communities.gov.uk/documents/housing/pdf/157773.pdf
[11] 'Modelling Business Plans for Council Landlords: Report on model inputs, assumptions and outputs' 2010


Graph 1A: Percentage increase in M&M allowances
16.00%
14.00%
12.00%
10.00%
8.00%
6.00%
4.00%
2.00%
0.00%
1 11 21 31 41 51 61 71 81 91 101 111 121 131 141 151 161 171


Graph 2A: Percentage increase in MRA allowances
60.00%
50.00%
40.00%
30.00%
20.00%
10.00%
0.00%
1 10 19 28 37 46 55 64 73 82 91 100 109 118 127 136 145 154 163 172


Graph 3A: Percentage increases in combined allowances
18.00%
16.00%
14.00%
12.00%
10.00%
8.00%
6.00%
4.00%
2.00%
0.00%
1 9 17 25 33 41 49 57 65 73 81 89 97 105 113 121 129 137 145 153 161 169 177

Funding for Disabled Facilities Adaptation

36. It was decided during the 2010 Comprehensive Spending Review that the valuation should reflect the likely costs that councils might face in meeting their future statutory disabled facilities requirements. This was estimated by the BRE study to be around £60 per dwelling per year on average. In total, this represents a cost of £111m per annum; over 30 years, at a 3.5 per cent discount rate, the present value of this is £1.972bn. See Annex for details of the annual costs and calculation of the present value.

Cost of implementing a new system

37. This is an estimate of the cost of increased staff time required to implement a new system and the cost of any new processes or increased regulation. These costs are expected to be relatively low. The local authorities are already responsible for ongoing management, maintenance and operation of their stock. However, the change in the financing of social housing and any voluntary agreement by local authorities is likely to require consultation with tenants, the production of a 30-year business plan and an up-to-date stock condition survey being carried out.

38. Estimates are based on information collected for *the Impact Assessment for Exempting some Local Authorities from the HRA Subsidy System*, published by DCLG in November 2008[12] as part of the wider assessment for the Housing and Regeneration Act. This estimated a cost of £180k per authority for setting up a self-financing system. This can be broken down to: producing a business plan (£20k); consulting with tenants/residents (£60k); and a stock condition survey (£100k). Adjusting for inflation since November 2008 gives a value of £181,583 per authority. This figure was multiplied by the number of authorities (172 currently estimated to join self-financing) to reach a final figure of £31.2m.

39. The information was based on estimates from six local authorities representing a wide range of local circumstances. The detailed modelling work by the authorities was based on updated stock condition surveys and tested a range of assumptions and sensitivities.

40. Their work was scrutinised and supported by a group of representatives from a range of housing bodies and other experts in the field who met regularly as a contact group. These estimates were presented in the phase one consultation without disagreement.

Premia

41. In a self-financing offer, a local authority's opening level of debt, as calculated by PwC, could be higher or lower than the notional debt allocated to the authority under the current Housing Revenue Account subsidy system. For those where the debt level generated by the model was lower than the assumed housing debt, government would pay that local authority a capital sum equivalent to the difference between the two. For those where the assumed housing debt was higher, the local authority would pay government the difference.

42. There are likely to be premia payable for early redemption of loans by local authorities who will receive a capital sum from government to reduce existing debt. This debt premia cost will be paid by central Government. However, this premia cost is fiscally neutral, as it is also paid to central Government via another arm - the Public Works Loan Board.

[12] http://www.communities.gov.uk/publications/housing/housingregenactimpactassess

Loss of Large Scale Voluntary Transfer Receipts

43. If self-financing proposals (and associated uplifts) do not go ahead, or are delayed, it is possible that councils will consider voluntary transfer to housing associations as the only means available of generating sufficient resources to provide decent quality social housing. In particular, authorities with estimated “positive value” stock, (i.e. an estimated stock value above their current debt level) may be tempted to transfer their stock to a housing association. This may mean a loss of receipt to Government which is currently 20 per cent of the residual value upon completion of the transaction/sale to the alternative provider.

44. However, this issue is primarily one of timing; once self-financing is implemented, there should be equity in terms of public funding between transferring stock and self-financing.

Rescuing a Failing Authority

45. There is a potential cost of rescuing failed authorities if the new system does not work, or unforeseen circumstances occur that make the system unsustainable. The modelling carried out during the review suggests this is unlikely to happen but it is not impossible. In such a situation, the authority would first of all turn to its General Fund for extra capital.

46. It this were not practical, it is likely that an authority would be asked to dispose of stock to deal with the problem. The valuation of their stock, and hence the debt we are asking them to take on, is based on income derived from a social rent. It is reasonable to assume that the actual market value of the property will always be higher than the valuation, as long as social rents are below private rents. Therefore, by selling properties, they can pay down debt and free up cash (through lower debt interest payments) to support their remaining housing stock. This would not involve any cost for central government.

47. While it is unlikely that a direct funding intervention by central government would be the chosen approach, there is a small risk that stock disposal might not be practical for some authorities. This might happen if demand for and the market value of the stock is too low to make disposal an option. In this situation there might be a need for direct central government funding intervention to rescue the failing authority. Attempting to monetise this for the purpose of the Impact Assessment is not practical as it would depend on many uncertain factors including the risk of failure, the size of the authority and the extent of their cash flow problems.

Benefits

Efficiency Savings emanating from ability to plan long-term and optimise the cycle of repairs and replacements planned over 30 years.

48. One of the key complaints from councils, tenants and stakeholders about the current national subsidy system is that volatility within the system makes long-term planning very difficult. There can be changes in allowances, rents and borrowing allocations at very short notice.

49. Arguably, in recent years this volatility has become even more pronounced. Recently, central government has halved previously announced guideline rent increases in consecutive years at short notice. While most authorities welcomed the moves, the

complex nature of the system meant these last minute changes were challenging to implement for both central government and local authorities.

50. In addition, local responsibility and accountability is weak, and the current system adds a lot of prescriptive operational detail to what should be a strategic relationship between landlords and central government.

51. In autumn 2006, six local authorities – three of them with arms length management organisations – were invited by the DCLG to take part in an exercise to test the costs and benefits of operating outside the redistributive national Housing Revenue Account subsidy system. . The *March 2008 DCLG report, "Self-financing of council housing services: Summary of findings of a modelling exercise*[13]"sets out the findings of the project. The six authorities produced model 30-year business plans based on a one-off settlement with central Government which would allow them to leave the national system similar to the currently proposed system.

52. As well as testing the affordability of a business plan based on different settlement levels, the project examined claims about the inherent benefits of a localised system of housing finance with long-term predictability of income streams to improve efficiencies. Each of the modelling authorities therefore analysed what longer-term business planning, in the context of greater predictability over income streams, offered in terms of efficiency savings.

53. The group agreed a consistent approach to the gathering of evidence and analysed potential efficiencies under the following main headings.

a. **Better rates** within the supply chain: long term partnering arrangements with predictability of resources allows contractors to plan labour and develop a long-term approach to the supply chain; the group has aimed to develop evidence of different efficiencies for different elements based on the mix of labour and materials within programmes
b. **Efficiencies in the client side**: long-term planning allows client side overheads to be reduced permanently, reducing duplication, reducing tendering costs and reducing inspections.
c. Avoiding the **cost of patching up** elements prior to their eventual renewal: renewal of elements after the suggested life cycle risks incurring additional revenue and capital patching up works prior to eventual renewal.
d. **Packaging works**: the ability to package works effectively over the long term allows efficiencies to be delivered compared to smaller, shorter programmes.
e. Environmental programmes: placing environmental works, which are usually funded and carried out on an ad-hoc basis, into sustainability programmes, incorporating estate design, landscaping and car parking, security etc.

54. Necessarily, the experiences of the authorities within the group differed with some in a stronger position to identify and quantify certain areas of efficiencies and not all authorities were able to provide evidence in all areas. In addition, it proved difficult for all authorities where there has been no history of long-term financing certainty to put themselves in the position of quantifying the impact of such certainty. However, the group did provide for a common application of the findings to ensure that a consistent approach to the analysis was maintained. The evidence provided by each pointed to the fact that these efficiencies combined are worth around 10 per cent of gross stock condition survey investment over 30 years, a total of £382m in cash terms for all six authorities (an average of £63.7m per authority)[14].

[13] http://www.communities.gov.uk/publications/housing/selffinancingservices
[14] http://www.communities.gov.uk/documents/housing/pdf/selffinancinghousing.pdf

55. If this average is then multiplied by the number of local authorities currently holding stock within the Housing Revenue Account subsidy system (172), this equates to £365.21m per year, which is £10.956bn over 30 years in cash terms. Discounted at a rate of 3.5%, the present value of these savings is £6.490bn.

Maintaining Homes to a Decent Standard

56. The uplifted allowances will have the primary impact of maintaining homes to a decent standard. If current funding levels were continued into the future, the homes would gradually fall into a state of disrepair and would eventually either become unfit for habitation or would require a separate large capital program to bring them up to standard. Therefore, without the increases in maintenance allowance there would be a gradual depreciation of the housing capital over the 30 years.

57. By 2010 the current Decent Homes programme will have cost over £40bn in capital investment bringing more than one million homes up to a decent standard and increasing their capital value accordingly.

58. It is not unreasonable to estimate that a programme of a similar size would be required in 30 years time to bring the homes back up to standard if allowances are maintained at their current level. In effect, this means that the increased investment throughout the period will avoid a capital depreciation of a similar scale. It is therefore reasonable to assume that the total value of this depreciation by year 30 would be somewhere in the range of £32bn to £40bn. This range is estimated based on the proportion of the cost generated by local authority housing stock in the current Decent Homes programme, which was around £32bn, and the total cost of the Decent Homes programme to date, which is £40bn. For the estimates in this assessment, we have assumed a linear depreciation in the value of the stock over the 30 years and discounted this at 3.5 per cent.

59. The present value of this avoided depreciation is estimated to be in the range of £18.955bn to £23.693bn. A table showing the calculation of this is included in Annex 1.

60. The additional Decent Homes funding secured in the 2010 Comprehensive Spending Review has not been reflected in the benefit calculation. This funding aims to bring the majority of the remaining non-decent stock up to standard. The benefits estimated here should still be realised as the increased allowances prevent the depreciation of both existing and newly-invested capital.

61. These estimates could potentially be understating the cost of not providing local authorities with uplifted allowances. Ageing population (and consequently an ageing profile of tenants) may also mean costs associated with repairing homes to a decent standard with appropriate age-related modifications are higher over the coming years relative to the previous programme, due to an increase in basic requirements.

Evidence Supporting the Counterfactual of Capital Depreciation

In autumn 2006, six local authorities – three of them with Arms Length Management Organisations – were invited by DCLG to take part in an exercise to test the costs and benefits of operating outside the redistributive national Housing Revenue Account subsidy system. The *March 2008 CLG report, "Self-financing of council housing services: Summary of findings of a modelling exercise*[13] "sets out the findings of the project. The six authorities produced model 30-year business plans based on a one-off settlement with central Government which would allow them to leave the national system in a way similar to the currently proposed system.

The six modelling authorities established their investment needs, using a range of different scenarios. The base case reflected the minimum investment needed to maintain decent homes and meet other basic needs of the stock and neighbourhoods. To indicate the viability of a self-financing settlement, the models used an approach which shows the debt profile over the 30 years of the business plan. A rising level of debt indicates that spending needs are greater than income, suggesting that a plan is unaffordable. A constant or falling level of debt indicates that the plan is probably affordable.

The model assumes income that is not needed to spend on maintaining decent homes and the basic sustainability of the stock is used to repay debt. This approach illustrates the viability of the business plans. The opening debt level shapes this debt profile and the settlement price drives the opening debt level. The model first tested the viability of the opening debt levels which would be produced if the settlement was set at the price indicated by the core assumptions about rents and spending needs in the current Housing Revenue Account subsidy system. For all six authorities, the debt profile suggested that the business plan would be unaffordable.

The models then established the opening level of debt which would be needed to produce a viable business plan. For all six authorities this would require a lower level of opening debt than indicated by the original settlement calculation. The project considered the reason for the gap between the two sets of figures. The main reason is that the business plans for all authorities indicate they need a level of investment over 30 years which is higher than the spending needs assumed in the Housing Revenue Account subsidy system in order to maintain the capital stock. In other words, their plans for basic sustainability would not be deliverable within the Housing Revenue Account subsidy system if current policies are maintained.

As set out above, the need for future capital maintenance and investment to maintain the decent homes standard is higher than the likely future level of capital resources within the subsidy system. This supports our assumption that under the current system there would be a gradual depreciation of the capital stock. The modelling described above was based on a 30-year business plan and therefore considered the extra investment needed to maintain the stock over these 30 years. Our counter factual is therefore based on depreciation occurring over a 30-year time horizon.

Ability for councils to fund construction of new housing stock

62. The ability of local authorities to retain their rental income should allow authorities over time to invest in new social housing stock. Recent reforms which have allowed councils to retain the rental income arising from newly constructed stock demonstrated considerable appetite for this with 4,000 new units expected to be produced by 2011/12.

63. Accurately estimating the increased capacity for further new build going forward is challenging.

64. An indication of the absolute upper limit of funds which might be available for new build would be the gap between income and costs in a given year after meeting their debt interest payments. This operating surplus can give us some indication of funds available for additional investment. We estimate that most councils will have a surplus after the first few years and therefore it is reasonable to expect some degree of new build.

65. We do not attempt to estimate the scale of this because, in reality, local authorities will be faced with many competing demands for any surplus income. Appetites to invest in new stock (and support debt generated by new stock) will differ between local authorities, as will demand for new social rented housing, borrowing costs, and timings of repairs and maintenance required.

Non-monetised benefits for which there is insufficient evidence to accurately quantify

66. Some of the potentially largest benefits cannot be effectively monetised. These include the improvements to quality of life that an improved housing finance system would bring about. It should improve the quality of the stock and relate rents to the quality of accommodation provided on a local scale. This in turn, may lead to improved health, education and work opportunities for tenants relative to the current situation.

67. Councils will have greater financial autonomy making them more accountable to their tenants. Tenants will also benefit from increased local transparency which abolishes the current opaque system where there is little connection between the level of rent charged and the resources a social housing landlord has to spend locally.

68. Central government will receive a surplus in the initial debt settlement. This will offset the interest lost on forecast Housing Revenue Account subsidy surpluses. The transaction is fiscally neutral, though, as it is a transfer of debt from central government to local government.

Specific impact tests

Competition Assessment

- No impact on competition. Social housing is not a competitive market.

Small Firms Impact Test

- No impact on small firms as the changes are concerned with the local authority housing sector only.

Legal Aid

- No immediate legal impact relative to the existing system.

Sustainable Development

- The increased allowances will increase funding for the local authority housing sector. This may be spent on environmental improvements for local authority housing.

Health Impact Assessment

- An improved funding mechanism for council housing will improve the standard of the home which has been shown to have large positive health impacts. According to Shelter (www.shelter.org.uk), those living in poor housing are more than twice as likely to suffer from poor health.

Race/Disability/Gender Equality

- We have undertaken a screening of the reform of council housing finance for race, disability and gender equality. On the basis of the screening, which included analysis of responses to the consultation in July last year, we do not believe that any specific equalities impacts will arise. However, we are aware that this decision has been taken on the basis of limited evidence and respondents are invited to provide details of any likely differential impact on different equalities groups. Local authorities are reminded to consider the need for Equality Impact Assessments when making policy decisions under self-financing.

Human Rights

- Improved housing standards could possibly improve educational opportunities.8% of children living in sub-standard accommodation lose out on a quarter of their schooling, according to Shelter. The causality of this is debatable, however, and improving housing may not automatically improve educational achievement.

Rural Proofing

- The allowances take account of rural/urban locations and adjust needs accordingly. All areas will benefit from increased allowances.

Annexes

Annex 1: Tables

a) Calculation of cost from increases in allowances and Disabled Facilities Grant funding

Year		Discount Factor	Current Allowance	Uplifted Allowance[1]	Extra Cost per Year	PV of Extra Cost	Additional DFG Funding	PV of Extra Cost
0	2010	1			£ -	£ -		£ -
1	2011	0.966183575			£ -	£ -		£ -
2	2012	0.9335107	£4,644,676,000	£5,189,834,000	£ 545,158,000	£ 508,910,826	£ 111,000,000	£ 103,619,688
3	2013	0.901942706	£4,644,676,000	£5,189,834,000	£ 545,158,000	£ 491,701,282	£ 111,000,000	£ 100,115,640
4	2014	0.871442228	£4,644,676,000	£5,189,834,000	£ 545,158,000	£ 475,073,702	£ 111,000,000	£ 96,730,087
5	2015	0.841973167	£4,644,676,000	£5,189,834,000	£ 545,158,000	£ 459,008,408	£ 111,000,000	£ 93,459,022
6	2016	£0.81	£4,644,676,000	£5,189,834,000	£ 545,158,000	£ 443,486,384	£ 111,000,000	£ 90,298,572
7	2017	0.785990961	£4,644,676,000	£5,189,834,000	£ 545,158,000	£ 428,489,260	£ 111,000,000	£ 87,244,997
8	2018	0.759411556	£4,644,676,000	£5,189,834,000	£ 545,158,000	£ 413,999,285	£ 111,000,000	£ 84,294,683
9	2019	0.733730972	£4,644,676,000	£5,189,834,000	£ 545,158,000	£ 399,999,309	£ 111,000,000	£ 81,444,138
10	2020	0.708918814	£4,644,676,000	£5,189,834,000	£ 545,158,000	£ 386,472,763	£ 111,000,000	£ 78,689,988
11	2021	0.684945714	£4,644,676,000	£5,189,834,000	£ 545,158,000	£ 373,403,635	£ 111,000,000	£ 76,028,974
12	2022	0.661783298	£4,644,676,000	£5,189,834,000	£ 545,158,000	£ 360,776,459	£ 111,000,000	£ 73,457,946
13	2023	0.639404153	£4,644,676,000	£5,189,834,000	£ 545,158,000	£ 348,576,289	£ 111,000,000	£ 70,973,861
14	2024	0.61778179	£4,644,676,000	£5,189,834,000	£ 545,158,000	£ 336,788,685	£ 111,000,000	£ 68,573,779
15	2025	0.596890619	£4,644,676,000	£5,189,834,000	£ 545,158,000	£ 325,399,696	£ 111,000,000	£ 66,254,859
16	2026	0.576705912	£4,644,676,000	£5,189,834,000	£ 545,158,000	£ 314,395,841	£ 111,000,000	£ 64,014,356
17	2027	0.557203779	£4,644,676,000	£5,189,834,000	£ 545,158,000	£ 303,764,098	£ 111,000,000	£ 61,849,620
18	2028	0.53836114	£4,644,676,000	£5,189,834,000	£ 545,158,000	£ 293,491,882	£ 111,000,000	£ 59,758,086
19	2029	0.52015569	£4,644,676,000	£5,189,834,000	£ 545,158,000	£ 283,567,036	£ 111,000,000	£ 57,737,282
20	2030	0.502565884	£4,644,676,000	£5,189,834,000	£ 545,158,000	£ 273,977,812	£ 111,000,000	£ 55,784,813
21	2031	0.485570903	£4,644,676,000	£5,189,834,000	£ 545,158,000	£ 264,712,862	£ 111,000,000	£ 53,898,370
22	2032	0.469150631	£4,644,676,000	£5,189,834,000	£ 545,158,000	£ 255,761,220	£ 111,000,000	£ 52,075,720
23	2033	0.453285634	£4,644,676,000	£5,189,834,000	£ 545,158,000	£ 247,112,289	£ 111,000,000	£ 50,314,705
24	2034	0.437957134	£4,644,676,000	£5,189,834,000	£ 545,158,000	£ 238,755,835	£ 111,000,000	£ 48,613,242
25	2035	0.423146989	£4,644,676,000	£5,189,834,000	£ 545,158,000	£ 230,681,966	£ 111,000,000	£ 46,969,316
26	2036	0.408837671	£4,644,676,000	£5,189,834,000	£ 545,158,000	£ 222,881,127	£ 111,000,000	£ 45,380,981
27	2037	0.395012242	£4,644,676,000	£5,189,834,000	£ 545,158,000	£ 215,344,084	£ 111,000,000	£ 43,846,359
28	2038	0.38165434	£4,644,676,000	£5,189,834,000	£ 545,158,000	£ 208,061,917	£ 111,000,000	£ 42,363,632
29	2039	0.368748155	£4,644,676,000	£5,189,834,000	£ 545,158,000	£ 201,026,007	£ 111,000,000	£ 40,931,045
30	2040	0.356278411	£4,644,676,000	£5,189,834,000	£ 545,158,000	£ 194,228,026	£ 111,000,000	£ 39,546,904
31	2041	0.344230348	£4,644,676,000	£5,189,834,000	£ 545,158,000	£ 187,659,928	£ 111,000,000	£ 38,209,569
[1] uplifted allowances as calculated in PwC model						**£ 9,687,507,915**		**£ 1,972,480,233**

b) Efficiency Savings emanating from ability to plan long-term and optimise the cycle of repairs and replacements planned over 30 years

Year		Discount Factor	Effciency Saving	Present Value of Efficiency Saving
0	2010	1	0	£0
1	2011	0.966183575	0	£0
2	2012	0.9335107	£ 365,213,333	£340,930,555
3	2013	0.901942706	£ 365,213,333	£329,401,502
4	2014	0.871442228	£ 365,213,333	£318,262,321
5	2015	0.841973167	£ 365,213,333	£307,499,827
6	2016	0.813500644	£ 365,213,333	£297,101,282
7	2017	0.785990961	£ 365,213,333	£287,054,379
8	2018	0.759411556	£ 365,213,333	£277,347,226
9	2019	0.733730972	£ 365,213,333	£267,968,334
10	2020	0.708918814	£ 365,213,333	£258,906,603
11	2021	0.684945714	£ 365,213,333	£250,151,307
12	2022	0.661783298	£ 365,213,333	£241,692,084
13	2023	0.639404153	£ 365,213,333	£233,518,922
14	2024	0.61778179	£ 365,213,333	£225,622,147
15	2025	0.596890619	£ 365,213,333	£217,992,412
16	2026	0.576705912	£ 365,213,333	£210,620,688
17	2027	0.557203779	£ 365,213,333	£203,498,250
18	2028	0.53836114	£ 365,213,333	£196,616,666
19	2029	0.52015569	£ 365,213,333	£189,967,794
20	2030	0.502565884	£ 365,213,333	£183,543,762
21	2031	0.485570903	£ 365,213,333	£177,336,968
22	2032	0.469150631	£ 365,213,333	£171,340,066
23	2033	0.453285634	£ 365,213,333	£165,545,957
24	2034	0.437957134	£ 365,213,333	£159,947,785
25	2035	0.423146989	£ 365,213,333	£154,538,922
26	2036	0.408837671	£ 365,213,333	£149,312,969
27	2037	0.395012242	£ 365,213,333	£144,263,738
28	2038	0.38165434	£ 365,213,333	£139,385,254
29	2039	0.368748155	£ 365,213,333	£134,671,743
30	2040	0.356278411	£ 365,213,333	£130,117,626
31	2041	0.344230348	£ 365,213,333	£125,717,513
		Total	**£ 10,956,400,000**	**£6,489,874,600**

c) Benefits of maintaining homes to a decent standard

If homes are not maintain to a decent standard, there will need to be a large capital expenditure programme in the future to bring them back to a standard fit for habitation. For this assessment, we have estimated the cost of avoided depreciation in each year over the appraisal period on the basis that the total value of this depreciation by year 30 would be somewhere in the range of £32bn to £40bn.

			High Esimate		Low Estimate	
Year		Discount Factor	Depreciation per Year	Present Value of Depreciation	Depreciation per Year	Present Value of Depreciation
0	2010	1	£ -	£ -	£ -	£ -
1	2011	0.966183575				£ -
2	2012	0.9335107	£ 1,333,333,333	£ 1,244,680,934	£ 1,066,666,667	£ 995,744,747
3	2013	0.901942706	£ 1,333,333,333	£ 1,202,590,274	£ 1,066,666,667	£ 962,072,219
4	2014	0.871442228	£ 1,333,333,333	£ 1,161,922,970	£ 1,066,666,667	£ 929,538,376
5	2015	0.841973167	£ 1,333,333,333	£ 1,122,630,889	£ 1,066,666,667	£ 898,104,711
6	2016	0.813500644	£ 1,333,333,333	£ 1,084,667,526	£ 1,066,666,667	£ 867,734,021
7	2017	0.785990961	£ 1,333,333,333	£ 1,047,987,948	£ 1,066,666,667	£ 838,390,358
8	2018	0.759411556	£ 1,333,333,333	£ 1,012,548,742	£ 1,066,666,667	£ 810,038,993
9	2019	0.733730972	£ 1,333,333,333	£ 978,307,963	£ 1,066,666,667	£ 782,646,370
10	2020	0.708918814	£ 1,333,333,333	£ 945,225,085	£ 1,066,666,667	£ 756,180,068
11	2021	0.684945714	£ 1,333,333,333	£ 913,260,952	£ 1,066,666,667	£ 730,608,761
12	2022	0.661783298	£ 1,333,333,333	£ 882,377,731	£ 1,066,666,667	£ 705,902,185
13	2023	0.639404153	£ 1,333,333,333	£ 852,538,871	£ 1,066,666,667	£ 682,031,096
14	2024	0.61778179	£ 1,333,333,333	£ 823,709,054	£ 1,066,666,667	£ 658,967,243
15	2025	0.596890619	£ 1,333,333,333	£ 795,854,158	£ 1,066,666,667	£ 636,683,327
16	2026	0.576705912	£ 1,333,333,333	£ 768,941,216	£ 1,066,666,667	£ 615,152,972
17	2027	0.557203779	£ 1,333,333,333	£ 742,938,373	£ 1,066,666,667	£ 594,350,698
18	2028	0.53836114	£ 1,333,333,333	£ 717,814,853	£ 1,066,666,667	£ 574,251,882
19	2029	0.52015569	£ 1,333,333,333	£ 693,540,921	£ 1,066,666,667	£ 554,832,736
20	2030	0.502565884	£ 1,333,333,333	£ 670,087,846	£ 1,066,666,667	£ 536,070,277
21	2031	0.485570903	£ 1,333,333,333	£ 647,427,870	£ 1,066,666,667	£ 517,942,296
22	2032	0.469150631	£ 1,333,333,333	£ 625,534,174	£ 1,066,666,667	£ 500,427,339
23	2033	0.453285634	£ 1,333,333,333	£ 604,380,845	£ 1,066,666,667	£ 483,504,676
24	2034	0.437957134	£ 1,333,333,333	£ 583,942,845	£ 1,066,666,667	£ 467,154,276
25	2035	0.423146989	£ 1,333,333,333	£ 564,195,986	£ 1,066,666,667	£ 451,356,789
26	2036	0.408837671	£ 1,333,333,333	£ 545,116,894	£ 1,066,666,667	£ 436,093,516
27	2037	0.395012242	£ 1,333,333,333	£ 526,682,990	£ 1,066,666,667	£ 421,346,392
28	2038	0.38165434	£ 1,333,333,333	£ 508,872,454	£ 1,066,666,667	£ 407,097,963
29	2039	0.368748155	£ 1,333,333,333	£ 491,664,207	£ 1,066,666,667	£ 393,331,365
30	2040	0.356278411	£ 1,333,333,333	£ 475,037,881	£ 1,066,666,667	£ 380,030,305
31	2041	0.344230348	£ 1,333,333,333	£ 458,973,798	£ 1,066,666,667	£ 367,179,038
			Total PV	**£ 23,693,456,247**	**Total PV**	**£ 18,954,764,997**

Annex 2: 10-Year Appraisal Period

This Impact Assessment has been measured on a 30-year appraisal period which is consistent with both the period used to value the business and the intention that this should be a long-term settlement. However, other policies in the Localism Bill have been measured against a 10-year appraisal period. In order to facilitate ease of comparison, we have set out the costs and benefits over a 10-year appraisal period below.

	Costs	Benefits
Self-financing model **Net Benefit £6.202bn to £8.343bn**	Increased Management & Maintenance, Major Repairs: £545m per year for 10 years – (PRESENT VALUE £4.381bn). Increased funding for disabled facilities adaptation: £111m per year for 10 years – (PRESENT VALUE £891m) Cost of implementing a new system: Estimated £32.1m (based on £181.5k/LA for 172 LAs). Cost of rescuing failing authority: not possible to cost. Loss of receipt from authorities with positive stock valuation who opted for transfer. **Total = £5.304bn** + cost of rescuing failing LAs.	Efficiency savings due to ability to plan long-term and optimise the cycle of repairs and replacements planned over 10 years. (Est. PRESENT VALUE £2.934bn.) Improvements to quality of life, health and work opportunities – not possible to be monetised. Homes are maintained to Decent Homes Standard avoiding the capital depreciation of the stock. (Est. PRESENT VALUE range from £8.571bn to £10.713bn.) More ability to build new homes – with subsequent increased income and sales. Improved local accountability and transparency. **Total = £11.505bn to £13.647bn** + improvements to quality of life.

a) Calculation of cost from increases in allowances and Disabled Facilities Grant funding

Year		Discount Factor	Current Allowance	Uplifted Allowance[1]	Extra Cost per Year	PV of Extra Cost	Additional DFG Funding	PV of Extra Cost
0	2010	1			£ -	£ -		£ -
1	2011	0.966183575			£ -	£ -		£ -
2	2012	0.9335107	£4,644,676,000	£5,189,834,000	£ 545,158,000	£ 508,910,826	£ 111,000,000	£ 103,619,688
3	2013	0.901942706	£4,644,676,000	£5,189,834,000	£ 545,158,000	£ 491,701,282	£ 111,000,000	£ 100,115,640
4	2014	0.871442228	£4,644,676,000	£5,189,834,000	£ 545,158,000	£ 475,073,702	£ 111,000,000	£ 96,730,087
5	2015	0.841973167	£4,644,676,000	£5,189,834,000	£ 545,158,000	£ 459,008,408	£ 111,000,000	£ 93,459,022
6	2016	£0.81	£4,644,676,000	£5,189,834,000	£ 545,158,000	£ 443,486,384	£ 111,000,000	£ 90,298,572
7	2017	0.785990961	£4,644,676,000	£5,189,834,000	£ 545,158,000	£ 428,489,260	£ 111,000,000	£ 87,244,997
8	2018	0.759411556	£4,644,676,000	£5,189,834,000	£ 545,158,000	£ 413,999,285	£ 111,000,000	£ 84,294,683
9	2019	0.733730972	£4,644,676,000	£5,189,834,000	£ 545,158,000	£ 399,999,309	£ 111,000,000	£ 81,444,138
10	2020	0.708918814	£4,644,676,000	£5,189,834,000	£ 545,158,000	£ 386,472,763	£ 111,000,000	£ 78,689,988
11	2021	0.684945714	£4,644,676,000	£5,189,834,000	£ 545,158,000	£ 373,403,635	£ 111,000,000	£ 76,028,974
[1] uplifted allowances as calculated in PwC model						**£ 4,380,544,855**		**£ 891,925,788**

b) Efficiency Savings emanating from ability to plan long-term and optimise the cycle of repairs and replacements planned over 30 years

Year		Discount Factor	Effciency Saving	Present Value of Efficiency Saving
0	2010	1	0	£0
1	2011	0.96618357	0	£0
2	2012	0.9335107	£ 365,213,333	£340,930,555
3	2013	0.90194271	£ 365,213,333	£329,401,502
4	2014	0.87144223	£ 365,213,333	£318,262,321
5	2015	0.84197317	£ 365,213,333	£307,499,827
6	2016	0.81350064	£ 365,213,333	£297,101,282
7	2017	0.78599096	£ 365,213,333	£287,054,379
8	2018	0.75941156	£ 365,213,333	£277,347,226
9	2019	0.73373097	£ 365,213,333	£267,968,334
10	2020	0.70891881	£ 365,213,333	£258,906,603
11	2021	0.68494571	£ 365,213,333	£250,151,307
		Total	**£ 3,652,133,333**	**£2,934,623,335**

c) Benefits of maintaining homes to a decent standard

			High Esimate		**Low Estimate**	
Year		**Discount Factor**	**Depreciation per Year**	**Present Value of Depreciation**	**Depreciation per Year**	**Present Value of Depreciation**
0	2010	1	£ -	£ -	£ -	£ -
1	2011	0.96618357				£ -
2	2012	0.9335107	£ 1,333,333,333	£ 1,244,680,934	£ 1,066,666,667	£ 995,744,747
3	2013	0.90194271	£ 1,333,333,333	£ 1,202,590,274	£ 1,066,666,667	£ 962,072,219
4	2014	0.87144223	£ 1,333,333,333	£ 1,161,922,970	£ 1,066,666,667	£ 929,538,376
5	2015	0.84197317	£ 1,333,333,333	£ 1,122,630,889	£ 1,066,666,667	£ 898,104,711
6	2016	0.81350064	£ 1,333,333,333	£ 1,084,667,526	£ 1,066,666,667	£ 867,734,021
7	2017	0.78599096	£ 1,333,333,333	£ 1,047,987,948	£ 1,066,666,667	£ 838,390,358
8	2018	0.75941156	£ 1,333,333,333	£ 1,012,548,742	£ 1,066,666,667	£ 810,038,993
9	2019	0.73373097	£ 1,333,333,333	£ 978,307,963	£ 1,066,666,667	£ 782,646,370
10	2020	0.70891881	£ 1,333,333,333	£ 945,225,085	£ 1,066,666,667	£ 756,180,068
11	2021	0.68494571	£ 1,333,333,333	£ 913,260,952	£ 1,066,666,667	£ 730,608,761
			Total PV	**£ 10,713,823,282**	**Total PV**	**£ 8,571,058,626**

Annex 3: Post Implementation Review (PIR) Plan

A PIR should be undertaken, usually three to five years after implementation of the policy, but exceptionally a longer period may be more appropriate. A PIR should examine the extent to which the implemented regulations have achieved their objectives, assess their costs and benefits and identify whether they are having any unintended consequences. Please set out the PIR Plan as detailed below. If there is no plan to do a PIR please provide reasons below.

Basis of the review: [The basis of the review could be statutory (forming part of the legislation), it could be to review existing policy or there could be a political commitment to review]; The objective behind the proposed policy is that this is a one-off, not to be reversed, change to the way in which council housing is financed, i.e. that the annual subsidy system run by central government ceases and local authorities are given sole charge of their own social housing stock using their own rental income. As such, there is no plan to formally review the impact of the policy, but some information regarding its implementation by local authorities will be monitored (see below). There will also be ongoing audit requirements for local authorities including how they fulfill their new responsibility for the long-term management of their social housing stock. In addition, we will continue to monitor information collected by local authorities on their borrowing levels.
Review objective: [Is it intended as a proportionate check that regulation is operating as expected to tackle the problem of concern?; or as a wider exploration of the policy approach taken?; or as a link from policy objective to outcome?] DCLG's role will be a proportionate check that the new financial arranagements and the transfer of responsibility to local authorities brought about by the Localism Bill are operating effectively. We expect that routine monitoring of this policy will fall within the remit of local authorities' general audit regimes and through direct feedback by local authorities to tenants.
Review approach and rationale: [e.g. describe here the review approach (in-depth evaluation, scope review of monitoring data, scan of stakeholder views, etc.) and the rationale that made choosing such an approach] Centrally we will rely on minimal data collection, local authority audit and the role of the Homes and Communities Agency to intervene if there is a clear risk of failure on the part of any individual local authority. However, this minimal control and data collection by central government will be balanced by greater local accountability as local authorities will need to make publicly available to their tenants information on their annual income and expenditure. As part of the Government's wider plans to reduce data collection, the Department will set out shortly its proposals for the reduced housing data it will continue to collect from local authorities, including what information it will be critical to continue to collect on stock levels, decency of the properties, new build and demolitions. Over the coming months, further details of any proposed research and analysis will be considered by a Localism Bill review steering group, to ensure that the methods are appropriate, proportionate, and cross-cutting where possible, so that we collect only essential information/data at both the baseline and follow-up review stages.
Baseline: [The current (baseline) position against which the change introduced by the legislation can be measured] The baseline position against which the change introduced by the legislation can be measured will be the last set of stock data provided by local authorities under the current subsidy system and the determinations issued by DCLG on the back of these.
Success criteria: [Criteria showing achievement of the policy objectives as set out in the final impact assessment; criteria for modifying or replacing the policy if it does not achieve its objectives] These localist reforms are intended to result in a one-off change to the way in which council housing is financed, i.e. that the annual subsidy system run by central government ceases and local authorities are given control of their own social housing stock and their own rental income so that they are better able to plan on a long-term efficient basis for the particular needs of their community. The Government will continue to monitor the number and condition of council houses.

This information on the quality of the stock over the long term will inform judgements about the success of self-financing.
Monitoring information arrangements: [Provide further details of the planned/existing arrangements in place that will allow a systematic collection systematic collection of monitoring information for future policy review] The Government will set out its proposals in more detail on data collection shortly as part of a broader policy document on the self-financing reforms.
Reasons for not planning a PIR: The changes will be monitored on an ongoing basis.

Annex 4: Glossary of Terms

Housing Revenue Account Subsidy: where assumed expenditure in meeting the running costs of Housing Revenue Account stock exceeds assumed income, Housing Revenue Account subsidy is paid by central government grant to local authorities; where assumed expenditure is less than assumed income, "negative subsidy" is paid to central government by local authorities.

Maintenance Allowance: a part of the notional expenditure element of the Housing Revenue Account subsidy calculation which represents an estimate of each authority's relative need to spend on the maintenance of its housing stock. The Maintenance Allowance covers expenditure upon response repairs, planned works, basic works for re-lets and terminations and crime related works to voids.

Management Allowance: a part of the notional expenditure element of the Housing Revenue Account subsidy calculation which represents an estimate of each authority's relative need to spend on the management of its housing stock.

Major Repairs Allowance: an element of the Housing Revenue Account subsidy, introduced for the first time in 2001–2002. The Major Repairs Allowance provides each authority with estimated long-term average amount of capital resources required to maintain their stock in its current condition.

Subsidy Capital Financing Requirement : a version of the Housing Revenue Account Capital Finance Requirement which is used to calculate subsidy entitlement in the light of debt financing costs or investment income. It is in effect a measure of Housing Revenue Account debt for subsidy purposes taken at the mid-year point.

Consolidated Rate of Interest: the average interest rate for the year on all money borrowed by an authority (not just relating to the Housing Revenue Account) including temporary borrowing. It is calculated on an accruals basis. The level of the Consolidated Rate of Interest will depend on the proportion and level of fixed and variable interest rates, on the historical profile of borrowing and the authority's debt management policy over the years. There is a unique Consolidated Rate of Interest for each authority

Arms length management organisation: a company set up by a local authority to manage and improve all or part of its housing stock. When an arms length management organisation is established, the housing stock remains in the ownership of the local authority but the arms length management organisation takes responsibility for its day-to-day management. This leaves the local authority free to focus on wider strategic housing issues. The arms length management organisation is owned by the local authority and managed by a board of directors which includes tenants, local authority nominees and independent members.

The Public Works Loan Board (PWLB): a statutory body operating within the United Kingdom Debt Management Office, an Executive Agency of HM Treasury. PWLB's function is to lend money from the National Loans Fund to local authorities and other prescribed bodies, and to collect the repayments.

Registered Social Landlords (RSL): government-funded not-for-profit organisations that provide affordable housing. They include housing associations, trusts and cooperatives. They work with local authorities to provide homes for people meeting the affordable homes criteria.

As well as developing land and building homes, RSLs undertake a landlord function by maintaining properties and collecting rent.