



House of Commons
Committee of Public Accounts

The Decent Homes Programme

**Twenty-first Report of Session
2009–10**

Report, together with formal minutes, oral and written evidence

*Ordered by the House of Commons
to be printed 10 March 2010*

The Committee of Public Accounts

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Powers of the Committee of Public Accounts are set out in House of Commons Standing Orders, principally in SO No 148. These are available on the Internet via www.parliament.uk.

Publication

The Reports and evidence of the Committee are published by The Stationery Office by Order of the House. All publications of the Committee (including press notices) are on the Internet at <http://www.parliament.uk/pac>. A list of Reports of the Committee in the present Session is at the back of this volume.

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Summary

Under the Decent Homes Programme, over a million homes have been improved since 2001. The living standards of vulnerable households will have been greatly improved by the installation of, for example, 810,000 new kitchens, 610,000 new bathrooms and 1,140,000 new central heating systems. There have also been wider benefits such as more tenant involvement in housing decisions and jobs created in deprived areas.

We welcome the improvements made and the substantial progress towards the original target of all social housing being of a decent standard by December 2010. However, despite this progress, the target will not be met. By the Department for Communities and Local Government's (the Department) own estimates, 305,000 homes will still be non-decent at that date and the last of these will not be decent until 2018–19. The Department needs to do more to ensure that landlords can complete this outstanding work and that properties are not allowed to fall back into disrepair.

Full accountability for public money is not optional and the Department needs to improve its financial control over this Programme. It is still not clear how much the Department itself has actually spent on the Programme and we are not convinced that the Department has secured best value from the funds given to Arms Length Management Organisations (ALMOs). Before asking local authorities and Registered Social Landlords to bring their social housing stock up to a reasonable standard, the Department should have prepared a proper estimate of how much it would cost them. According to the best information available to the Department, it will have cost local authorities and Registered Social Landlords approximately £37 billion by 2010–11. The Department has also not done enough to identify and share good practice with social landlords.

The Department lacks some basic management information on the Programme, such as reliable statistics on the number of homes made decent or not. The Department needs to address its information deficiencies in order to evaluate properly the impact of the Programme. It should also ensure that it builds in adequate arrangements for monitoring and evaluation from the start on any other programmes.

The Department also needs to improve its evaluation of the private sector element of the Programme. It does not know how much local authorities have spent on this element, and it will need to review the performance of individual authorities if good practice is to be identified and disseminated.

On the basis of a report by the Comptroller and Auditor General,¹ we examined the extent to which the Department for Communities and Local Government and the Homes and Communities Agency are effective in overseeing the Decent Homes Programme.

1 C&AG's Report, Session 2009–10, *The Decent Homes Programme*, HC 212

Conclusions and recommendations

- 1. There has been substantial progress towards the objective that all social housing should be of a decent standard by December 2010.** Over a million homes have been improved since 2001 and there have been wider benefits such as more tenant involvement in housing decisions and jobs created in deprived areas. However, some elements of the Department's financial control were weak and the Department did not exercise sufficient oversight of the Decent Homes Programme's devolved delivery. Our recommendations reflect the need for the Department to get a stronger grip of these issues in future.
- 2. An estimated 305,000 social sector homes will still be non-decent at December 2010, and work on these will not be completed until 2018–19.** Although the Department has stated its commitment to fund the remainder of the Programme, there is a risk that such funding will not be forthcoming, given likely pressures on future public spending. The Department should prepare a contingency plan for the Programme's completion, with options and priorities clearly identified should funding not be available.
- 3. If the Decent Homes Programme is to achieve value for money in the long term, local authorities need clear plans in place to prevent the build up of another maintenance backlog.** The Department intends that each local authority will fund maintenance themselves in future. The Department will be announcing details of its proposals imminently, and it is vital that it then acts quickly to finalise the new funding arrangements with individual local authorities, based on reliable assessments of likely costs and revenues.
- 4. It is unsatisfactory that the Department did not identify the likely cost of the Decent Homes Programme to the social housing sector at its start.** The £19 billion estimate it did prepare was not 'fit for purpose' as it omitted the cost of improving housing that would fall below standard as the Programme progressed, the cost of inflation and the costs to Registered Social Landlords. The Department should, for future programmes, provide more robust estimates of the likely costs before starting.
- 5. It is not clear how much the Department has given to the social housing sector to fund the Programme.** Decent Homes funding streams and costs are not separately identified from other money spent on housing and the Department can only estimate how much has been used on Decent Homes. In future, when setting up major programmes, the Department should first be clear on what costs it is letting itself in for, and then put in place arrangements that enable the costs it then incurs to be accurately identified.
- 6. Arms Length Management Organisations (ALMOs) have spent more on improvements per property than local authorities that retained their stock.** The Department has not gone back to examine whether ALMOs were provided with more funding than was necessary. The Department and the Homes and Communities Agency should go back to those ALMOs that have completed their

work to identify why they spent more per property and assess whether any future funding needs to be reduced.

- 7. The Department has done little to compare unit costs of different approaches to carrying out work to improve the standard of homes or to share this information with landlords.** The Department should, as part of its current evaluation of the Decent Homes programme, identify the most cost effective approaches and then disseminate good practice.
- 8. It is unacceptable that the Department lacks basic information, such as the total number of homes made decent.** The Department should, in the first instance, make sure that information on monitoring returns is accurate, and that the numbers of homes made decent can be separately identified from those where tenants refuse work or where homes are scheduled for demolition. For future programmes, it should ensure that it builds in adequate arrangements for the collection of robust monitoring data from the very start.
- 9. The Department has only provided extra funding for Decent Homes to those local authorities which have set up ALMOs, used the Private Finance Initiative or transferred their housing stock.** Local authorities that wished to retain day-to-day management of the housing stock had to fund improvements from their own resources. As part of its current evaluation of the Decent Homes programme, the Department should examine whether the policy decision not to provide additional funding to some local authorities has had a negative impact on value for money, for example, if lack of funding led to cheap materials being used that consequently needed to be replaced earlier.
- 10. The Department has very little information on whether the funds provided for improving private sector homes have been spent well.** It does not separately track this spending and has done little to monitor individual local authority performance. The Department should assess the impact of the funding it provides through local authorities, in order to identify and disseminate good practice.

1 Completing the Programme and maintaining housing in the long-term

1. The Decent Homes Programme (the Programme), overseen by the Department for Communities and Local Government (the Department), aims to improve the condition of homes for social housing tenants and vulnerable households in private sector accommodation in England.

2. The Department originally set a target for all social housing in England to be decent by December 2010, and substantial progress has been made against this. As of April 2009, almost 86% of social housing was decent according to returns from landlords, with the numbers of non-decent properties falling by 1,100,000 to leave 580,000 properties non-decent. Of these, 182,000 were Registered Social Landlord properties, representing over 8% of their stock. These Landlords have reduced the level of non-decency from a maximum of almost 21% in 2003, mainly at their own cost.² Between April 2001 and March 2008, Arms Length Management Organisations (ALMOs) and retaining local authorities have installed 810,000 new kitchens, 610,000 new bathrooms and 1,140,000 new central heating systems. Some 850,000 council homes have been re-wired, over 1,000,000 have had new windows, and 882,000 have had improvements to their insulation. There have also been wider benefits in terms of better housing management, tenant involvement and employment opportunities.³

3. Despite these achievements, the target of 100% decency by 2010 will not be met. The Department estimates that 92% of social homes will be decent by that date, leaving 305,000 properties non-decent. The number of non-decent properties is then expected to fall to 124,000 by 2014, and work on the last of these will not be completed until 2018–19.⁴

4. There is some uncertainty over whether the landlords concerned will receive the funding they need from the Department to complete this work. The Department assured us that it is committed to funding the remainder of the Programme so that all social homes are decent, but we consider that there is still a risk, given the likely pressures on future public spending, that such funding may not be forthcoming.⁵

5. The Government intends that each local authority and Registered Social Landlord will have sufficient funds available to them to maintain their housing to the required standard once the Programme has been completed, without the need for another large capital programme like Decent Homes. The Department is proposing to reform the system for financing local authority housing so that it becomes self-financing, with local authorities keeping all their rental income and capital receipts for use on their housing.⁶ The Housing Minister will be announcing more details in March.⁷ However, the reforms are complex,

2 Qq 38 and 48; C&AG's Report, Session 2009–10, *The Decent Homes Programme*, HC 212, paras 2.3 and 2.4

3 C&AG's Report, paras 17 and 4.1

4 Qq 17 and 48; C&AG's Report, para 2.6

5 Qq 8, 17 and 21

6 Qq 8–9 and 60

7 Qq 10 and 58

involving a redistribution of housing debt between local authorities across the country and a significant increase in the Major Repairs Allowance to free up funds for maintenance, while at the same time avoiding any significant increases in rent.⁸ There is a risk that the reforms will not be successful in making the necessary funds available, resulting in the build-up of another maintenance backlog.

6. From April 2010 new regulatory standards will apply for all social housing. While these will require that individual social housing properties be maintained at least to the Decent Homes Standard, they will also contain new standards for the maintenance of communal and external areas. The Department intends that there should be sufficient funding in the new local authority housing finance system to allow for the on-going maintenance of these areas, with backlogs of work on these items to be dealt with by capital grant programmes.⁹ The Department is also working with the Department of Energy and Climate Change on its *Household Energy Management Strategy* for increasing the energy efficiency of existing housing and is currently considering how any resulting work on social housing will be funded.¹⁰

8 Qq 9–10 and 52

9 Qq 44 and 66; C&AG's Report, paras 4.9 and 4.10

10 Q 66

2 Improving financial controls

7. The Department's funding to the social housing sector for the Programme has taken two forms:

- Gap-funding provided specifically for Decent Homes. Local authorities were only able to access this funding if they chose one of three options for delivering the Programme: the establishment of an ALMO; the use of the Private Finance Initiative; or the transfer of their housing stock to a Registered Social Landlord. This funding was not available to local authorities which chose to retain their stock, and
- Funding to local authorities for major housing repair work, via the Major Repairs Allowance in the Housing Revenue Account subsidy system and supported capital borrowing from the Regional Housing Pot. Authorities could use this funding not only on Decent Homes but also for other repair work.

8. The funding has been directed mainly at local authorities as Registered Social Landlords were expected to fund the Programme from their own resources and new borrowing if required. Registered Social Landlords only received gap-funding from the Department when taking on local authority housing stock in such poor condition that it had a large negative value.¹¹

9. The sums involved have been significant, with the Department providing £22 billion in total for Decent Homes and other repair work by the end of 2008–09, using the funding routes above. However, the Department does not know exactly how much it has given towards the costs of Decent Homes as it only has an estimate of how much of the Major Repairs Allowance and Regional Housing Pot was used by local authorities for this purpose.¹²

10. The Department exercised effective control when releasing gap-funding for ALMOs, both when assessing local authority bids for funding and when releasing this funding in tranches every two years.¹³ Despite these controls, ALMOs have spent roughly £10,000 per property on improvements, while local authorities which retained their stock spent roughly £6,000 per property.¹⁴ According to the Department, there are a number of reasons why ALMO spending is likely to have been higher. The condition of ALMOs' housing stock has tended to be worse than that of retaining authorities and ALMOs have also refurbished to higher standards in response to their tenants' wishes.¹⁵ All social landlords had the freedom to do this, if their tenants agreed and the landlord could afford it, as the Decent Homes Standard served as a minimum threshold designed to trigger action by landlords, and was not a 'one-size-fits-all' specification of the work to be done.¹⁶ According to the

11 Qq 2, 24 and 49; C&AG's Report, Figure 9

12 Q 31; C&AG's Report, para 3.10, Figure 10

13 Qq 6, 64 and 65

14 Qq 22 and 35–36; C&AG's Report, Figure 13

15 Qq 35, 36 and 49

16 Q 5

Department, it was likely that Registered Social Landlords were spending more per property than retaining local authorities for the same reasons.¹⁷

11. We asked the Department and the Homes and Communities Agency (the Agency) what evidence they had that such higher spending was not, in fact, the result of ALMOs receiving too much gap-funding. In the current year, the Agency had worked with 15 selected ALMOs to examine their business plans in more depth to get a better understanding of their costs and funding requirements. It had found that the ALMOs had not been over-funded by the Department. The gap-funding given to these had been tightly drawn and they had had to use resources from their local authorities to refurbish their properties to a higher standard.¹⁸ However, the Department agreed that there was scope for it to do more in this area. For example, it had not gone back, once an ALMO had actually completed its Decent Homes work, to examine the actual unit costs incurred to see how these differed between landlords, or had changed over time, and to see whether the amount of gap-funding it had given had been reasonable.¹⁹

12. The Department has made some efforts to promote efficiencies in the use of the funding it provided. For example, it funded the National Change Agent for Housing which has established 14 procurement consortia covering 122 landlords responsible for 33% of Decent Homes work in the social housing sector. These consortia have identified potential efficiency savings of £590 million.²⁰ Social landlords have also had to demonstrate their value for money to the Audit Commission.²¹ According to the Agency, local authorities became more efficient as the Programme developed and they got a better understanding of their costs and how to improve their procurement.²² However, the Department acknowledges that it could have done more to share good practice with landlords. For example, it did not make use of the information it had to identify and compare the unit costs of different approaches to undertaking the work. It expects that the evaluation that it commissioned in December 2009 will provide such an analysis.²³

17 Qq 40 and 49

18 Qq 7 and 11

19 Qq 6 and 74

20 Qq 38 and 64

21 Q 36

22 Q 12

23 Qq 38 and 74

3 Improving monitoring and evaluation

13. At the start of the Programme the Department did not calculate an estimate of the total cost to local authorities and Registered Social Landlords of making all their homes decent. While it did produce an estimate of £19 billion using data from the English House Condition Survey, this covered local authority housing only. According to the Department, the estimate did not cover Registered Social Landlords as the extent of non-decency in their housing stock was much less and they were more able to tackle the problem using their own resources. In contrast, the condition of local authority housing was much worse and would require government assistance.²⁴

14. According to the Department's latest figures, local authorities and Registered Social Landlords will spend over £37 billion making their housing decent (Figure 1), with local authorities spending an estimated £29.3 billion compared to the initial estimate of £19 billion. According to the Department, these two sums are not comparable. For example, the outturn figures overestimate expenditure on Decent Homes as they include other capital works to communal areas, lifts and the wider estate. In addition, the £19 billion was not an estimate of the total long-term cost to local authorities as it did not include the cost of future inflation or allow for properties that were decent at the start but which subsequently fell below standard. Finally, the English House Condition Survey, which formed the basis of the estimate, only examined the condition of samples of properties. Subsequent examinations by each local authority of all their housing revealed that the level of non-decency was higher than initially identified.²⁵

Figure 1: Landlord expenditure in the social housing sector: 2001–2011

Local authorities and ALMOs	Registered Social Landlords	Total
£ billion	£ billion	£ billion
29.32	8.07	37.39

Source: C&AG's Report, Figure 8

15. According to the Department, the production of a long-term estimate would have depended on the Department making such a series of assumptions about the way that the Decent Homes work was going to be done by landlords that the resulting estimate would have been of little use. The Department considered that the £19 billion estimate produced was, nevertheless, a good estimate of the total cost of work in the local authority sector and that it gave the Government a reasonable measure of the scale of investment required in that sector.²⁶

16. The Department does not have robust information on the number of social housing properties made decent under the Programme. Although it has estimated that 1.4 million local authority properties have been made decent, this figure is based on local authority

24 Qq 2, 3 and 39

25 Qq 38–40

26 Qq 2, 3 and 38

returns which include properties that are still non-decent but where tenants have refused work or demolition is planned. The Department also has no estimate for Registered Social Landlord properties.²⁷

17. The Department considers that its figures for the year-on-year improvement in the overall number of decent homes in the social housing stock are robust.²⁸ Despite this, there is a significant difference in the extent of the improvement shown by returns from landlords and by the English House Condition Survey. According to landlord returns, the number of decent homes in the social housing stock had increased by 1.1 million by April 2009, whereas the Survey only showed an improvement of 500,000 by April 2007.²⁹ These differences have arisen, in part, because the landlord returns count tenant refusals and planned demolitions as being decent, whereas the Survey does not.³⁰ In the Department's view, the landlord returns provide the most reliable figures for progress on the Programme, although it also continues to publish the Survey's figures.³¹

18. Ministers set the parameters within which the Programme was to be delivered and decided that gap-funding specifically for Decent Homes would not be given to local authorities that chose to retain their housing stock.³² The decision over whether to retain or to use one of the three delivery options that attracted gap-funding rested with local authorities.³³ Factors influencing their decision included the extent to which their properties were non-decent, whether they had sufficient funds to carry out the refurbishment needed, and their tenants' preferences.³⁴

19. Although retaining local authorities have still received funding from the Department via the Major Repairs Allowance and Regional Housing Pot, the decision not to provide them with gap-funding ensured they received less money from the Government than authorities who chose one of the other three options for delivering Decent Homes.³⁵ Despite this, according to the Department the vast majority of local authorities are successfully implementing the Programme.³⁶ Where authorities still have work outstanding, the Department and the Homes and Communities Agency are actively engaging with these authorities about how they will complete this work within the Programme parameters set by ministers.³⁷

20. In 2002 the Department set a target for private sector housing, that 70% of vulnerable households in such housing should be in decent accommodation by 2010. By April 2006, this target had almost been achieved, with 68% of vulnerable households in decent private

27 Qq 44, 48 and 75; C&AG's Report, para 2.14

28 Qq 13–15, 47 and 48

29 Qq 16 and 75

30 Qq 42 and 43

31 Qq 16 and 43

32 Qq 24, 25 and 31

33 Qq 28, 29 and 33

34 Qq 5, 12, 24, 28, 35, and 72

35 Qq 24 and 26

36 Q 20

37 Qq 11 and 18–21

sector housing. However, because of the introduction of the more demanding Housing Health and Safety Rating System in 2006, the number of such households in non-decent private sector accommodation increased. As a result, by April 2007, the number of vulnerable households in decent private sector housing had fallen to 61%.³⁸

21. The funding of the private sector element of Decent Homes is much simpler than for the social housing sector, with local authorities receiving grants allocated by the Regions from the part of the Regional Housing Pot meant for private sector renewal. However, the Department only has an estimate of £1.2 billion for the amount of this grant that will be spent by 2011 on private sector Decent Homes.³⁹

22. In overseeing the private sector element of the Decent Homes Programme the Department has given local authorities much greater discretion and has only monitored progress at a national level.⁴⁰ As a result, it does not know how much individual local authorities have spent on the private sector element of the Programme. It is more challenging for local authorities to monitor this element of the Programme because they do not control the housing stock.⁴¹

38 Q 45; C&AG's Report, Figure 6

39 Q 45

40 Q 37

41 Q 45; C&AG's Report, para 3.4

Formal Minutes

Wednesday 10 March 2010

Members present:

Mr Edward Leigh, in the Chair

Mr Ian Davidson
Nigel Griffiths

Rt Hon Keith Hill
Mr Austin Mitchell

Draft Report (*The Decent Homes Programme*), proposed by the Chair, brought up and read.

Ordered, That the draft Report be read a second time, paragraph by paragraph.

Paragraphs 1 to 22 read and agreed to.

Conclusions and Recommendations 1 to 10 read and agreed to.

Summary read and agreed to.

Resolved, That the Report be the Twenty-first Report of the Committee to the House.

Ordered, That the Chair make the Report to the House.

Ordered, That embargoed copies of the Report be made available, in accordance with the provisions of Standing Order No. 134.

Written evidence was ordered to be reported to the House for printing with the Report.

[Adjourned till Monday 15 March at 4.30 pm]

Witnesses

Monday 1 February 2010

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Mr Peter Housden, Permanent Secretary, **Mr Richard McCarthy**, Director General, Housing and Planning, Department for Communities and Local Government and **Sir Bob Kerslake**, Chief Executive, Homes and Communities Agency

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Oral evidence

Taken before the Committee of Public Accounts on Monday 1 February 2010

Members present

Mr Edward Leigh, Chairman

Mr David Curry
Keith Hill

Mr Austin Mitchell

Mr Amyas Morse, Comptroller and Auditor General, **Mr Rob Prideaux**, Director, Parliamentary Relations and **Mr David Clarke**, Director, National Audit Office, were in attendance.

Mr Marius Gallaher, Alternative Treasury Officer of Accounts, HM Treasury, was in attendance.

REPORT BY THE COMPTROLLER AND AUDITOR GENERAL THE DECENT HOMES PROGRAMME [HC 212]

Witnesses: **Mr Peter Housden**, Permanent Secretary, **Mr Richard McCarthy**, Director General, Housing and Planning, Department for Communities and Local Government, and **Sir Bob Kerslake**, Chief Executive, Homes and Communities Agency, gave evidence.

Q1 Chairman: Good afternoon. Welcome to the Committee of Public Accounts. Today we are looking at the Comptroller and Auditor General's Report on *The Decent Homes Programme*. We welcome back Peter Housden, who is Permanent Secretary of the Department for Communities and Local Government, Sir Bob Kerslake, Chief Executive of the Homes and Communities Agency, and Mr Richard McCarthy, who is Director General of Housing and Planning. Obviously, Mr Housden, any programme that improves social housing is very welcome and improvements are obviously being delivered, but it is a very big programme costing £37 billion and, therefore, we have got to hold you to account on value for money, which is our job. The first thing I would like to ask you, Mr Housden, is would you refurbish your own home without knowing what it was going to cost?

Mr Housden: Good afternoon, Chairman. Certainly I would be looking for an estimate that would give me an accurate picture of how much I was likely to spend.

Q2 Chairman: Good. Shall we look at paragraphs 3.2–3.4 of the Report. It seems to me, if you look at that paragraph, that you launched this Programme without knowing how much it would cost. How could you allow that to happen?

Mr Housden: My sense of this, Chairman, is that the principal concern was about the quality of the local authority housing stock, and using the English Housing Condition Survey the Department was able to get a serviceable estimate of the scope of repairs and improvements that would be required in the local authority sector to do that. The Registered Social Landlords (RSL) sector, I think, is in much better condition, much more likely to be able to reach Decent Homes within its own resources. Going forward from that £19 billion, any more detailed estimate would have rested on such a series

of assumptions as to have been of little use in the conventional sense of an estimate against which you can compare subsequent expenditure. I think you will have seen from the Report, which draws this out very fairly, that the programme actually saw Decent Homes works nested within wider improvements that the landlord was intending to make both within the property and to the wider estate or wherever the properties were situated.

The Committee suspended from 4.35pm to 4.40pm for a division in the House.

Q3 Chairman: I am trying to understand your answer and it has not been made any easier because we have been interrupted. If we look at 3.2 it says: "At the start of the Programme, the Department did not attempt to calculate an estimate of the total cost to local authorities and Registered Social Landlords of meeting the Standard on social housing stock up to 2010". It goes on to say, in fairness to you: "It did assess the scale of the challenge for local authority owned stock, estimating that the total cost of improving such stock would be £19 billion". What I understand from talking to the NAO is what this means is you did work out some sort of costs of upgrading but not the total cost. For instance, you did not work out the costs of registered social landlords or the fact there were new costs with the contingency coming on schedule. This is like painting the Forth Bridge, is it not, as soon as you repair one lot a new one comes on. That is why we seem to have ended up with this first sentence. Surely you should have done that.

Mr Housden: I think what the Department did do was to provide the Government with a serviceable estimate which it could use for its public spending priorities and deliberations really. The local authority sector was where the problem was concentrated. The evidence was suggesting that the

RSL sector would be able to reach decency standards throughout their own resources, and the evidence proves they have been able to do that. We were focused on the right thing, the local authority, we gave a good estimate of the likely cost of achieving those works, and it worked for the Government's purpose. If you take your logic further and look at what would have been required to establish a total estimate, you would have needed to make a whole series of assumptions about the way the work was actually going to be conducted. I am sure we will get on to that type of detail later in the hearing.

Q4 Chairman: We will try and get through to that. Mr McCarthy, you have had experience of this because you were Chief Executive of the Peabody Trust. What was it like as a social landlord being landed with a programme when nobody knew how much it would cost?

Mr McCarthy: I think that we recognised as a landlord, as many did in the RSL sector, that the responsibility rested with us and not the Department to be clear about the needs to improve our stock to meet what was accepted as a reasonable basic standard for social housing. I am doing the best I can to think about how I received that as a landlord and I felt the responsibility rested more with us than anyone else.

Q5 Chairman: Mr Housden, going back to you, please look at figure 14 and the refurbishment standard adopted in comparison with the Decent Homes Standard. We are looking at ALMOs now, which are Arms Length Management Organisations. Obviously there was some enthusiasm mildly in the Department, as I understand it, to try and get these up and running. If you look at that figure, almost a quarter of ALMOs have refurbished their housing to a significantly higher standard. Would I be right in thinking, therefore, that you gave them too much money?

Mr Housden: One of the policy intentions of The Decent Homes Programme was to lever in—in the jargon—additional resources from the landlords, in this case the local authorities, and to give them scope to exceed those standards. They were only a minimum threshold designed to trigger action by the landlord; they were not a specification or a one-size-fits-all. I think a further important part of the programme here, Chairman, was about tenant choice and the dialogue that went on with tenants about some of the strategic choices about funding major works but also some of the detail of what was to be done in individual schemes. That is a very important part of the overall programme here. ALMOs, therefore, are being responsive to the ambitions of both their host local authority and their tenant group.

Q6 Chairman: If we look at 3.24, I suppose this is backing up what you say: “The Department does not consider such comparisons would have been useful . . .”, but why did you just not go back and see what it really cost so you could work out how you do it better in the future?

Mr Housden: I think that is a fair point. We did some work in the Department to look through research at the programmes that were being instituted in different places, but I think the Report draws out fairly that we could have done more in that area. I am quite clear that the frontloading, if you like, of the value for money assessments in the programme, that no doubt we will talk about, was the right way to engineer value for money into this programme from the outset. I do think we could have done more. We did some, and the evaluation we have now commissioned will help shed some light on these programmes.

Q7 Chairman: Sir Bob, you have been in charge of these ALMOs since December 2008. What have you been doing to ensure they do not receive too much money?

Sir Bob Kerlake: We are continuing the process of assessing need for ALMOs coming on to the programme in the same way as the Department did, and continuing that pretty rigorous process. Secondly, what we have done in the current year is to work with a group of ALMOs, 15 selected ALMOs, to go through in a bit more depth their business plans and funding requirements in the process of delivery, and we are using that exercise to get a better understanding of delivery on the ground and costs. That is what we have done since we have taken on the role. We have continued the tight assessment of those being approved for funding and have developed the work on understanding the underlying costs of delivery.

Q8 Chairman: A last question for you, Mr Housden. Obviously this is one area which is unlikely to be protected from public expenditure cuts. How are you going to ensure that the stock does not start getting worse again so we need another Decent Homes Programme in ten years' time?

Mr Housden: I make no presumptions, Chairman, about the Government's future spending choices. I think the important thing from our point of view is to make sure that the level of rents and funds available to landlords, both in the RSL and local authority sector, is sufficient not only to complete the programme but to maintain the stock in an appropriate condition going forward because the absence of those factors have led to this state of degradation.

Q9 Chairman: So the weight of refurbishment will have to be carried by increased rents on people, not by government money?

Mr Housden: A mixture.

Mr McCarthy: May I add something to that, Chairman. This is a two-fold answer. First of all, just to recognise that by the end of the current Spending Review period we will have spent about three-quarters of the money required for ALMOs. That is not to diminish the importance of seeing that programme through to an end. Perhaps more importantly is the review that we have now embarked on and the consultation last July on the future housing finance system for local authorities. The intention is to move to a self-financing system which will give local authorities the resources and balance of

debt and income to maintain their properties in the future to prevent the recurrence of a need for another Decent Homes Programme. That will be done principally by moving debt so it is more equally spread across the country and, secondly, increasing the major repairs allowance significantly to enable authorities to maintain their properties at the correct standard. We are trying to move from a big capital programme, which has not completed yet, into one which is sustained through the local authority sector itself through its own income and resources.

Q10 Chairman: The local authority sector will be under equal pressure, will it not?

Mr McCarthy: What you have at the moment is a very uneven distribution of debt which means some local authorities operate their accounts in surplus and that surplus is used to balance deficits elsewhere. Through the mechanism that we have proposed and are now working on, and will say more about, I hope, in March, we are trying to balance that debt to create freedom within current projections of income, not significantly increasing rents, to enable housing to be sustained with rental income as it currently is with normal levels of increases going forward. We think the maths and the modelling we have done shows that can be achieved. We are working our way through the consultation responses and the Housing Minister, John Healey, is hoping to say something in more detail on our proposals in March.

Q11 Chairman: I am not sure I understood your answer, Sir Bob. You are carrying out this assessment, but what is it showing? Have they been over-funded or not?

Sir Bob Kerlake: I do not think they have been over-funded. I do not think there is any evidence that supports that view. What I think the evidence will tell you is that many authorities, as Peter has said, have brought in other resources in order to do more than the basic standard. We do now have a pretty good understanding of how much things cost and what efficiencies can be achieved, so the funding is pretty tightly drawn, and if authorities want to go beyond that they have to look to other sources of funding. Earlier I mentioned specifically the work we are doing in order to test costs on delivery and we are also continuing with the Social Housing Efficiency Programme which brings together groups of landlords to see if they can make procurement savings and drive down costs that way. Through our regional teams we also engage in direct dialogue with local authorities about how they are delivering The Decent Homes Programme. There is a whole series of ways we can both test how much it is costing when they come into the programme and how they are delivering on the ground.

Q12 Chairman: There is an implication, Sir Bob, that this was a political imperative to get ALMOs off the ground, to get this work out of the clutches of local authorities' direct works departments and, frankly, they were given sweeteners.

Sir Bob Kerlake: If that is an implication I do not think it is correct. The scale of the works that were involved here were way beyond the reach of most direct operations in local authorities. This was always going to be something that would involve the procurement of work through private contractors. If you take the case of my own authority before I came into this job, in Sheffield, we were talking about £1 billion of spend, a huge programme. I do not think there is any issue about sweeteners. What I think there is an issue of is as the programme developed, understanding of costs and how to improve procurement grew and local authorities worked collaboratively to drive efficiencies in the programme. There is pretty good evidence to back that up.

Chairman: I know Austin Mitchell has taken a longstanding interest in ALMOs, so I will turn to him next.

Q13 Mr Mitchell: Thank you. I am getting a bit confused actually because it seems to me you do not really know how much money is going to be necessary to bring the rest up to the Decent Homes Standard and you do not know how many homes have been brought up to the Decent Homes Standard. It looks pretty curious. Paragraph 2.14 tells us: "Figures for the number of properties made decent also include properties that are non-decent but where tenants have refused the work or demolition is planned." That must be a substantial number. You do not really know how many homes you have made decent.

Mr Housden: I think, Mr Mitchell, we can reliably indicate the year-on-year improvement in the overall number of decent homes in the social stock.

Q14 Mr Mitchell: If Marks & Spencer did the accounts on the same basis they would be in a financial disaster.

Mr Housden: With respect, this is not retailing. The important thing is we are able to have a good and accurate measure of the level of decency within the social housing stock and are able to estimate the gross number of houses which have had Decent Homes work done on them.

Q15 Mr Mitchell: My understanding is you do not know whether too much has been spent on the ALMOs and too little on local authority stock, you do not know how much has been spent on the housing association stock, and you do not know the numbers either, so you cannot tell us anything about value for money.

Mr Housden: As the Report sets out, Mr Mitchell, we can tell you the numbers and rate at which the housing stock has become decent. Through the measures that Bob Kerlake was just describing—

Q16 Mr Mitchell: 2.4 says that your estimate based on landlord returns is at 2009 the non-decent housing had fallen by 1.1 million but the English House Condition Survey said in 2007 that only half a million had been made decent. That is a wide gap between those figures even though there is two years of difference.

Mr Housden: As the Report indicates, we found that the landlord returns are the most efficient and valid way of measuring progress on the Decent Homes Standard. The English House Condition Survey uses different definitions. I think the Report indicates this and that the landlord returns are the most reliable.

Q17 Mr Mitchell: If I was living in one that had one definition in one survey and a different definition in another survey I might not be too happy. The final figure looks to be that you will not reach the target. It was a manifesto commitment for the Labour Party and a Government target. You will miss it by 305,000 houses this year. How would you feel if you were living in one of those 305,000 houses?

Mr Housden: The need and its wish to complete the programme is very clear to the Government and that commitment has been given by John Healey on behalf of the Government. The Report sets out fairly the reasons both why we are on track to achieve 92% over this period, which is a very considerable success against target, and the factors that led to us not achieving 100%.

Q18 Mr Mitchell: Will those local authorities that do not meet the target be funded to reach it?

Mr Housden: The programme, as it is set out, is open to local authorities and we are in active discussion with those authorities.

Q19 Mr Mitchell: Will they be funded to reach it?

Mr Housden: Within the scope of the programme.

Q20 Mr Mitchell: I ask because I spent ten days at the end of last year in High Court in Orchard Park in Hull, which is one of six multi-storeys. The local authority there says because they cannot get the money to bring them up to Decent Homes Standard, and they were pretty crappy (*sic*) I tell you, they have got to take out a PFI and pull them all down and sell off some of the properties, thus rendering about half the population of those flats homeless. That seems to be a very curious way of maintaining the Decent Homes Standard.

Mr Housden: There is no doubt that many of the schemes have involved large scale complex works with challenging financial arrangements underpinning them. What we are able to do now through the Homes and Communities Agency is to have a serious conversation with that local authority about the options that are available to them under the programme. It is manifestly clear that the vast majority of local authorities have been able to make this programme work for them and have levered in additional resources. Of course, we stand ready to have, and indeed are having, conversations with all those authorities where there are works outstanding.

Q21 Mr Mitchell: A discussion with the local authority about the options for reaching the programme is about the same as discussions with a person who is about to be hanged as to whether they want an English breakfast or a Continental breakfast if you are not going to fund either, and you are not making any commitment to fund it.

Mr Housden: The Government has made its intentions to fund the programme to completion clear and discussions continue with local authorities where there is work outstanding about the best options for them within the parameters of the scheme.

Q22 Mr Mitchell: The Chairman mentioned the difference in funding between the ALMOs and the local authorities and that is quite substantial. The table on page 33 shows the average cost of bringing the ALMO properties up to Decent Homes Standard was £10,000, whereas for retentionist local authorities which provided the money themselves it was £6,000. This seems particularly unfair since the Government has had a policy of trying to force councils into getting rid of their stock and privatising it, handing it over to housing associations, and for that purpose they have kept them short of funds, they have kept £1.6 billion a year out of housing revenue accounts, they have taken half a million a year out of right-to-buy sales from the local authorities' housing revenue accounts, they have squeezed them in all this, they took £13 billion for daylight robbery, all this money taken from the housing revenue accounts and then you are saying to retentionist councils, "You must provide the cost of reaching the Decent Homes Standard yourself, we are not going to help you". That is a policy of discrimination to force them to privatise, is it not?

Mr Housden: I do not recognise the privatisation aspect of all of this. Richard McCarthy would like to talk.

Mr McCarthy: Thank you. As you well know, the Government has provided money to authorities through local authority supported capital expenditure and through the major repairs allowance.

Q23 Mr Mitchell: Which was under-funded, of course, according to your own research.

Mr Housden: We have continued to look at that and, as you know, we have indicated that under a self-financing regime that would need to increase.

Q24 Mr Mitchell: It was 50% under-funded, just for the record.

Mr McCarthy: Thank you. We provide that money and that resource to local authorities. Some authorities need to spend more than the money that they can achieve through that funding mechanism on bringing their homes up to a Decent Homes Standard. The Government and ministers made clear, and have continued to make clear through changes of ministers, that there were three options to attract additional money. One was stock transfer, which does involve the ownership of the homes transferring to a housing association or similar body, non-profit making, and also involving a statutory tenant ballot, so ultimately it places the power in the hands of the tenant.

Q25 Mr Mitchell: Yes, but the effect of that is you are saying to retentionist local authorities whose tenants may well have voted to retain the housing stock, not to privatise it, “You’re going to be punished because we’re not giving you the same money that the ALMOs are getting to bring your homes up to a decent standard. That’s your punishment”.

Mr McCarthy: That is exactly why ministers introduced the two alternative mechanisms. Under PFI and ALMO structures your tenancy does not change, you remain a tenant of the local authority. What happens under an ALMO is that what ministers have said, and have consistently said, is if you want to retain your stock and want more money and do not want to use a PFI structure, you can do that but you must go through an ALMO route and that way you must demonstrate you have reached a higher standard of housing.

Q26 Mr Mitchell: If you are naughty and you do not do what the Government wants you are going to get less money. That is still the effect of what you are saying, is it not?

Mr McCarthy: That is the effect. If you choose not to take one of those options you have less money.

Q27 Mr Mitchell: If you go to a PFI, which you suggest is an alternative, you are going to have to sell off some of your housing stock.

Mr McCarthy: Not necessarily.

Q28 Mr Mitchell: Certainly in the Orchard Park development the proposal is to sell off half of it, thus rendering about 600 people homeless. That seems to me a crazy system, to reduce the amount of public housing for rent when we desperately need more because we have got 1.8 million on the housing lists.

Mr McCarthy: Any local authority exercising its options appraisal has to consider what it thinks, with its tenants, is the best route to pursue that balances accountability, delivery against the standards that are required, and then it has to make that decision. If it decides, with its tenants, that it wants to retain its stock and, therefore—

Q29 Mr Mitchell: Its tenants have decided to be made homeless?

Mr McCarthy: —does not want to pursue one of the options for introducing additional money whilst allowing tenants to remain a tenant of that local authority, then it might find in some cases it has to sell some of its homes in order to get the funding it needs. That is for a local authority to decide.

Q30 Mr Mitchell: You are happy to reduce the amount of capital it has anyway.

Mr McCarthy: No.

Q31 Mr Mitchell: That means you are putting it between—I am sorry, I did not go to Eton—Scylla and Charybdis in this equation because you are saying, “We’re not going to give you the money, you have either got to sell off stock or make your tenants live in decrepit conditions”, like the ones I encountered in High Court.

Mr McCarthy: No. Already the Government has provided £22 billion additional funding to support The Decent Homes Programme. The Government has put a lot of money on the table. Your challenge may be why did you not provide further options—that is probably what it is—and ministers were clear that they did not want to do that. We have delivered the programme as agreed by the Government of the day and successive ministers have continued to pursue the options which have been set out. These are quite broad in that under some of those options you can remain a local authority tenant.

Sir Bob Kerlake: Can I just add three points. The first is to reinforce the point that has been made by Richard that the ALMO model, as the name says, is an arms length management arrangement, it is neither privatisation nor moving out of the local authority ownership. We do have to be clear about this point.

Q32 Mr Mitchell: The ALMOs were John Prescott’s compromise, were they not, because the privatisation programme was failing, so he said, “I want to do another thing, and that’s ALMOs” and now they are being pressured into becoming housing associations or selling off to housing associations.

Sir Bob Kerlake: No.

Q33 Mr Mitchell: Is there no pressure on them to become housing associations?

Mr McCarthy: Absolutely no pressure at all, it is their choice with their authority as to whether they pursue that or not.

Q34 Mr Mitchell: There is certainly pressure on them to sell off some of the stock but that is what is happening in, say, Camden. Yes?

Mr McCarthy: No. Camden is an authority that has chosen to retain its stock. Its tenants voted against the ALMO, as you well know, and they are now looking at arrangements to rent some of the homes on a temporary basis in the private rented sector in order to generate additional income.

Q35 Mr Mitchell: It could be from those figures that are on table 13, page 33, that you have given too much money to ALMOs. Sir Bob, would you like to comment on that, and how you know, if you have?

Sir Bob Kerlake: The point I would make on this is that judgments were made by local authorities whether they went down the ALMO or transfer route according to the scale of the task they had to do, and many of the authorities that have done the process of Decent Homes as retention authorities did so because the challenge was less for them and they could do it within their own resources, so I am not at all surprised that the numbers come out as they do. Those who clearly could not fund it from their own resources had to look at one of the options available from the Government and, therefore, it is not at all surprising that the costs come out higher. I would make two other points here really. When you are coming to make a decision about funding Decent Homes in any authority, it is not simply about how much money might be available; you also have to

look at what would constitute value for money in terms of that particular stock. If I take the example in Sheffield, we demolished something like a dozen tower blocks simply because it was not good value to refurbish the blocks, and in the case of the Hull estate that you spoke about, which I have been round, Hull bid for the Private Finance Initiative. They did not have to bid for it, it was a choice; and the reason was that they thought the only way they could address the issues in that estate is by a transformation.

Q36 Mr Mitchell: I will stop you there because it was up to the tenants, of course; they had to vote for it. Let me take you back to the question of housing. It seems to me if you do not know whether ALMOs have spent excessively on their Decent Homes standards and you do not know whether the lower costs of having it done by retentionist local authorities represented value for money, and you do not know whether the housing associations, the RSLs, may have spent too much or may have gold-plated it, you have no possibility of giving us any indication about value for money, and you have failed in the opportunity which was there to set best standards, to tell local authorities how to do it, to say who was doing it more efficiently, and to secure best value for the taxpayer on that basis.

Mr Housden: Mr Mitchell, the Report would suggest otherwise on each of the four points that you made. We do know why there are differences between local authority retained stock and the spend of ALMOs. Bob Kerslake just indicated specific examples where the scale of the task was such that retention was not a viable option, and we have during the life of the programme, from the option appraisals onwards, applied benchmarks, done research, and funded procurement consortia in a serious lively debate. It is also worth pointing out, Chairman, that the local authorities responsible for this stock had their own duties, directly to their electorate but assisted by the Audit Commission and other patterns of accountability, to demonstrate value for money in whatever they chose to do, so there are some significant assurances available to you on all those points.

Q37 Mr Mitchell: The Government has also been paying local authorities to pay private landlords with disadvantaged people in houses to bring their properties up to Decent Homes standards. Can you tell us how much of that went to North East Lincolnshire and other Humberside authorities, and perhaps you can send us that in writing because I would love to know, but my last question is you have paid in total £1.2 billion in that grant system. How do you know where it has all gone, or whether you have value for money in that?

Mr Housden: We will let you have what information we have about the regional allocations covering that authority.¹ It is an importantly different programme in the private sector where local authorities properly have concerns about vulnerable

individuals' and families' housing accommodation in the private sector. What the Government was seeking to do was to give those authorities discretion to tackle those situations where they thought the case was compelling, and they have access to a range of funds, both revenue and capital, to tackle that, which they have to prioritise fairly within their regional housing pot and own local authority allocation, so it is run in a completely different way. We do not ask those local authorities for detailed returns on what they have spent, we have a broad measure of the number of homes in that sector that are now decent, but it is a feature of this programme as a whole that we have done all we can, on the one hand, to make sure we have proper and demonstrable value for money but, on the other, that we have avoided excessive data burdens particularly in this sector.

Chairman: We are making up in quality today what we lack in quantity, so we now have questions from a former Housing Minister, Mr Hill, who may have a slightly different perspective.

Q38 Keith Hill: Chairman, you have anticipated one or two declarations of interest I was about to make. I was indeed the nation's Housing Minister from 2003–05 when we were driving forward the Decent Homes programme, and I was, as Mr Mitchell knows, an enormous enthusiast for the ALMO programme. Indeed, at one stage in my life, Chairman, I probably admired more modernised bathrooms and kitchens than I have had hot dinners! The other declaration I should make is that I have recently become the chair of the Lambeth ALMO and I shall be shortly approaching Sir Bob and his HCA for our bid for something in the order of a quarter of a billion pounds for the Decent Homes programme in Lambeth, so let me begin by congratulating everybody here on a magnificent achievement in this Decent Homes programme—especially, of course, Sir Bob. On the whole this is quite a positive Report by the NAO, and I think most government departments would be pretty pleased with themselves if they achieved 92% of their target by the end of the programme period. Nevertheless, to summarise the NAO criticisms, there were two: first, the Department failed to set a realistic budget and objectives; and, secondly, it failed to build in adequate monitoring and evaluation, so perhaps we can turn first to the budgeting for the programme, where again the NAO is quite positive. It says the Department maintained good records on direct funding as well as the non material benefits. The majority of social landlords, it says, have improved their efficiency notably through large-scale procurement programmes and potentially saving £590 million, and it also points out that the registered social landlords have reduced non decency from 21% to 8% at no cost to the taxpayer, so these are all quite positive aspects of the budget, but naturally there is a source of concern relating to the cost of the programme effectively doubling from the estimated backlog of £19 billion in refurbishment, which the present administration

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inherited in 1997, to a final cost, as Mr Housden has said, of £37 billion. Why has the budget doubled, Mr Housden?

Mr Housden: Those sums are not comparable. The £37 billion represents the total of the Government's investment in the social housing stock, so Decent Homes major repairs and a range of other investments in that way, and I still feel, Mr Hill, that the original estimate was fit for purpose, that it enabled the Government to have a reasonable measure of the scale of investment that would be required in the local authority stock to base its priorities and spending choices. The value for money strategy that was adopted was appropriate to the nature of the programme that you developed really, because the policy intent was not simply to tip a large amount of money into social housing but to improve the quality of housing management, to give tenants a stronger say in strategic choices as well as in the detail of their programmes, and to lever in additional resources. That seems to me to be a balanced and innovative programme that, as you indicate and I think the Report fairly draws out, has delivered well against its objectives. Finally, to go back to the Chairman's point, what we are not being here is complacent because there is work to be done, there are 300,000 situations that we want to tackle urgently, and we accept also that in terms of some of the follow-up evaluations on cost we could have gone further. We could describe what we did which we think was important in terms of benchmarking and other sorts of research, but the idea of an evaluation that would have looked at comparable streams of work in different places and drawn out information we accept to have been a good insight, and the evaluation that Richard McCarthy has recently commissioned with ministers will give us that information. Finally, on lack of complacency, the creation of the Homes and Communities Agency has given us a real opportunity to drive home the further advances in the programme, so we are not complacent on either value for money or delivery.

Q39 Keith Hill: Mr Housden, I have not accused you of not looking for value for money or, indeed, and of course you were answering the Chairman, of complacency, but nevertheless the cost of the programme has doubled and it is a legitimate question to ask why, in your view, it has. What are the factors that have led to a doubling?

Mr McCarthy: Let's look at the £19 billion figure based on the English House Condition Survey assessment where you are looking at samples. Clearly what we asked local authorities to do was analyse all of their stock and then connect that to a matrix of options which resulted from that evaluation and also from consulting tenants. So it is a very complex matrix and in itself creates different solutions and derives from different costs. It did not include inflation, or any allowance for inflation; it did not include the RSL stock, so these figures are really quite important to understand, and the decision was taken that that was a very important clear figure to understand as a backlog, and it was always talked about as the backlog. That was the

inherited position. It was never presented, therefore, as the long-term cost. People will remember much of the discussion in 1996–97 was about that backlog figure. There was some investment immediately after that by which time we also started to receive some data from local authorities, and this is really what led to the main Decent Homes programme being announced in 2000–01 and then the options appraisal being introduced in 2003, because we wanted to get real detail and the only way we could get detail would be from the local authorities themselves from the work they had to do to really understand the scale of the task facing them.

Q40 Keith Hill: If I might just intervene at this point, what you are saying is that the more the local authorities drilled down into the real condition of their housing stock the more they discovered that in fact, in practice, the extent of non decency was greater than had been initially identified. Plus inflation, as you say, so those are the two factors.

Mr McCarthy: That would be partly true. Do not forget the inclusion of the RSL stock and also do not forget that, when you are involved in things like stock transfer, and you will find part of the negotiation with tenants might involve some other modest improvements beyond Decent Homes, for example, a higher level of insulation. You will also find the total figure of £37 billion, as recognised in the NAO Report, will pick up other capital works undertaken by local authorities which sit outside the Decent Homes programme, for example works to communal areas and lifts, and, as you know, we have consulted for the new Housing Finance Review to bring those in the total funding envelope.

Q41 Keith Hill: You mentioned insulation. In fact, the standard for Decent Homes changed twice in the period, one was about thermal comfort and then, of course, there was the housing health and safety rating system, which was introduced in 2006 as a result of that famous measure, the Housing Act 2004, which you will well recall, otherwise known as the Hill Bill. How many properties, how many units of non decency did each or both of those measures add to the number of non decent homes?

Mr McCarthy: I am not sure I can answer that in that way. I can come back to you on the impact of the housing health and ratings standard.² I can do it off the top of my head for the private sector but we can give you a detailed response on the social sector. As you will know, though, I think nearly 900,000 homes have seen improved insulation as part of the thermal comfort programme, and you have seen the SAP rating for social housing go from a rating of 47 in 1996 to 58 in 2007, which is a very significant increase over that time.

Q42 Keith Hill: You also referred in passing to the fact that in 2002 there was a new target set for vulnerable residents in the private sector which added 1.2 million to the number of homes which fell within the programme, but there were other factors

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affecting the numbers as well. There was the exclusion of refusals and also units due for demolition. Do we know how many homes that took out of the calculations?

Mr McCarthy: Again, we can give you some figures on that.³

Q43 Keith Hill: That would be helpful. I am really asking about that because those particular factors of refusals and demolition are not included in the English House Condition Survey, and you would argue that this contributes to the discrepancy in the figures to which Mr Mitchell alluded between what the Department identifies as the real number of non decent homes and what the EHCS identifies as the number of non decent homes.

Mr McCarthy: It is a contributory factor; there are two other reasons. You get quite a time lag in the English House Condition Survey, about two years, so there is an issue about the up-to-date nature of the data. Secondly, it does not necessarily pick up what some local authorities have chosen to adopt which is elemental programmes, for example, going through and doing windows as a complete contract rather than a single retrofit of an individual dwelling. People chose different approaches depending on the nature of the housing and its condition, so it struggled to keep up with that which is why we focused on the landlord returns, and we will continue to publish—and it is very important to be clear about this—the English House Condition Survey data.

Q44 Keith Hill: Let me pursue the question of the numbers, because it is obviously part of the judgment about the extent to which the Department really monitored what was happening out there with the Decent Homes programme. Is it the case that traditional RSLs which were not part of the Decent Homes stock transfer process, which do not have to supply information on the number of homes they have made decent every year, nevertheless do supply such data, and does the Department record that data?

Mr McCarthy: We do receive data through the Tenant Services Authority, previously the Housing Corporation. What is particularly important here is the way we have moved into a new national standard which is the regulatory standard which will formally adopt the Decent Homes standard with the new regulatory regime that takes effect from April this year, which will make it even easier for the TSA (Tenant Services Authority) to hold all social landlords, be they local authorities, housing associations or others, properly to account for the work they are doing against delivering a Decent Homes standard. We are able to tell you where we are with housing association stock in terms of the level of non decency and therefore decency, as we can with local authorities. As you point out, it is more difficult to tell you how many homes were, therefore, improved in any one year, and we have to accept that information is not available.

Q45 Keith Hill: What about the private sector and progress on the homes occupied by vulnerable people? Is it the case that local authorities find it difficult to complete annual returns on progress in that sector?

Mr McCarthy: They do find that quite challenging. You are dealing with stock you do not control so you are trying to maintain and watch over this privately owned stock, and not all of it is privately rented, it could be stock in the owner/occupier sector, so it is a very challenging area for the authorities both to deliver against and to monitor. We have overall data which showed until 2006 that we were ahead of our trajectory at that time and that we had 68% of vulnerable households living in decent homes in the private sector. The introduction of a new higher standard meant that the next year that dropped down to 61%, but that is a consequence of the new higher standard. Reference was made to the money invested, we think about £1.2 billion over the period of 2001 to 2011, which is provided by government to local authorities to provide grants and loans, and it is important to recognise that we also provide assistance to local government primarily through our Supporting People programme to run home improvement agencies. These work directly with vulnerable older people and other vulnerable householders in private homes, whether they own them or rent them, and they help arrange and carry out improvement works no matter how they are funded.

Q46 Keith Hill: But are you reasonably confident that the figures you have for the private sector are robust?

Mr McCarthy: Yes, we are.

Q47 Keith Hill: And, taking the figure of 1.4 million local authority homes which have benefited from the programme that you estimated in November of last year, what level of confidence would you attach to that figure?

Mr McCarthy: The 1.1 million figure in the NAO Report we are completely robust about—

Q48 Keith Hill: But in paragraph 2.16—

Mr McCarthy: I understand that. The 1.4 figure is an estimate which we are confident about, but the 1.1 million in terms of homes completed is a more robust number. What is critical is the data we have for the number of homes that do not meet the Decent Homes standard at the end of each year. That is why we can tell you that at present, at the end of the last financial year, there were 580,000 homes that did not meet the Decent Homes standard in the social rented sector. We believe that will fall to 305,000 homes at the end of the new financial year, 2011, and that will fall to 124,000 homes by 2014. So we do have clarity about where we are and some real milestones about where we think we are now heading to.

Q49 Keith Hill: I would like to move to a question on budgeting but before I do let us try to clear up this business of the cost of the ALMOs, and let me also say that I think we need to be rather careful with the

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language we use when describing registered social landlords and housing associations as examples of privatisation. These are not-for-profit organisations which, by law, are obliged to plough back all of their surplus into their housing stock and their housing responsibilities. You will correct me, however, in my recollection that most of the stock transfers occurred quite early in the process of the Decent Homes programme, and I also suspect probably amongst the smaller authorities and perhaps the less big city authorities as well, whereas the ALMOs were inevitably later in the process because they were not inaugurated until 2001 and were most often, I suspect, in larger authorities in the big cities and for that reason probably more costly. Would those be reasonable observations about one factor behind the differentiation of cost between ALMOs and stock transfers in retentionist authorities?

Mr McCarthy: That is not an unreasonable comment to make. As you know, we have had more recently more urban-based stock transfers but there is quite a record of estate-based transfers that precede 1997, I have to say, and this has continued to be the case. Bob will talk to you about those in Sheffield and I have had my own direct experience of them in Hackney and in Islington, so you are dealing with very difficult estates where an estate-based transfer is often the right way to formulate the right response, and those do prove to be quite challenging and expensive. As we move into these more difficult transfers, tenants want to proceed but the numbers prove to be very challenging, and that is why we introduced the gap funding mechanism, which is a very recent development and which recognised there was not sufficient value in the stock to transfer at nil cost and cover the cost of all the improvements and repairs that were required. As the stock transfers have by and large become more urban and more big-city based, they have proved to be more challenging and I think probably time and an evaluation will show they became more expensive, and certainly that triggered the introduction of the gap funding mechanism that, for example, is supporting some transfers in Liverpool.

Q50 Mr Curry: I am not sure whether I should really intervene in this happy little dialectic which has been going on, and I suppose I ought to declare an interest as well as one of a long legion of former Housing Ministers, but we ought to get the record straight. What happened was there were stock transfers under a previous Government, the expectation or the hope was this Government might well change it but it was less enthusiastic when it came into power in 1997 so they slowed down. In fact, it was not less enthusiastic at all; it was very keen to accelerate it. Then a number of big cities either lost ballots because they were hopelessly incompetent in how they went about consulting their tenants or simply funked it, and there had to be a "Third Way", and the third way was the ALMO. ALMOs have now, on the whole, taken the place of housing associations and the current Minister has, to all intents and purposes, pronounced the death of the classic housing transfer. If you read the statement last July clearly the

traditional housing transfer was not going to happen very often and only in special circumstances, and when I asked him if that is what he meant he said "Yes", so the geometry has shifted around.

Mr McCarthy: There was an announcement in December about the next group of transfers to be accepted on to the programme which included substantial transfers in places like Oldham and so on.

Q51 Mr Curry: Yes, but they were ones already on the horizon at the time of that announcement in July.

Mr McCarthy: Yes, but they were not formally on the programme, so we formally accepted some more transfers onto the programme and the Minister said in December or November that we would now stop taking more authorities on whilst we went through the process of introducing the new housing finance system, and then people must make their judgment.

Q52 Mr Curry: That is what I want to talk to you about because it is very interesting indeed, and let me start with Mr Housden's comment that future improvements will be "carried by rents" and your statement that we are moving debt so it will be more fairly spread over the country. This process of housing revenue account equalisation is not easy, is it, because there are some big numbers involved amongst the losers and big numbers involved amongst the gainers, running into tens of millions?

Mr McCarthy: It is certainly not easy, and the simple way to see it is as follows. In effect, the way we run the housing revenue accounts and distribute money to balance out those in surplus from those in deficit shows that it is really effectively run as a single national account, and in that context debt is not distributed on an even basis but on an historic basis.

Q53 Mr Curry: That is an entirely reasonable point to make from your point of view but, if you are running a local authority who happens to have a significant surplus at the moment, the idea of the more equal distribution of debt may not be something which turns their clocks.

Mr McCarthy: I would have thought your first reaction as an authority in surplus would be that that would not be your preferred option. However, if you take into the context that your housing revenue account forms a part of a national account and that what you are being offered, regardless of your circumstances, is the prize, which is, we understand, what local authorities wish to achieve and what ministers wish to achieve, then that prize is being able to have a self-financing arrangement where, as long as you maintain rent increases within the context of government policy and you meet the national minimum standards for your property in the context of government policy, you are free to run your housing as you wish and to use your surpluses, if you have any, to support whatever you wish.

Q54 Mr Curry: So is this going down the route to acclamation in local authorities? Are your consultations suggesting that there is going to be

such a wide degree of agreement amongst local authorities that the Government may not have to impose a solution in the end?

Mr McCarthy: I am afraid it is not really my job to announce ahead of the Minister the outcome of the consultation and the further work that we have done on this.

Q55 Mr Curry: But given your huge experience in this, Mr McCarthy, would your instinct tell you that you felt the Minister would be able to say, "Halleluiaah, everybody has agreed we can get through this in a day"?

Mr McCarthy: All I can and will tell you is that the Minister is very active in pursuing what he sees as an extremely important reform.

Q56 Mr Curry: I do not doubt that indeed; I have a great deal of admiration for John Healey, but being very active does not amount to much. In fact, if there was going to be a large degree of consensus he might be able to be less active and he might just be able to collect the "Yeses"?

Mr McCarthy: I am going to give you a little bit more which is I can tell you we are working very hard with the Minister on this, and I doubt we would be doing that if it looked like there was no chance.

Q57 Mr Curry: Does it need primary legislation?

Mr McCarthy: That is likely.

Q58 Mr Curry: And he is going to make an announcement in March?

Mr McCarthy: The next announcement will be in March, and I think we should leave the Minister to make the next announcement.

Q59 Mr Curry: I am sure he is going to make the next announcement but, given that it is not now an entirely closely guarded secret that the general election is going to take place in early May, then the chance of that necessary statutory change taking place is not huge, is it? I think you can say that without pre-empting your Minister.

Mr McCarthy: This is a change—

Q60 Mr Curry: I know the Opposition said they quite liked the idea but—

Mr McCarthy: It is very important to recognise that local government across the piece wants to go to a self-financing arrangement. Of course, there are different views about the distribution of debt but, by and large, you have a political consensus around the broad objective and what I am sure John Healey is hoping to do is, if you like, set out his vision for where the programme and that policy can go next.

Q61 Mr Curry: I am sure that the former housing ministers here can agree that little is easier than to get broad agreement on the broad objective, but when it comes down to detail then it gets that little bit trickier.

Mr McCarthy: I recognise that.

Q62 Mr Curry: The funding is largely funding per unit, and the way you do your calculation is per unit of houses improved?

Mr McCarthy: Yes. It tends to be recorded so we all can make comparisons.

Q63 Mr Curry: But quite often there are some big batches to be done, as I think we have agreed before, some huge batches?

Mr McCarthy: Yes.

Q64 Mr Curry: We have just been through, and may well still be in, a recession in which the new housing market has been so bad that you have almost had buy-one-get-one-free offers from some builders. What evidence is there that they have managed to drive down prices for this refurbishment and improvement programme so that you are getting more bang for your buck from construction people short of work than you would have done three or four years ago? Do you monitor that?

Mr McCarthy: Yes. What we are doing is using the National Change Agent. We have used our money to support the development of this new body which is a combination of a firm of solicitors, Trowers & Hamlins, who are specialists in the area, and Davis Langdon, a highly respected firm of project and programme cost managers in the building sector, and they are working actively to help the establishment of 14 consortia working with 122 landlords to make sure they can maximise the efficiency gains available to them by working together and exploiting opportunities in the market, and that is why we have real confidence in this efficiency gain of £590 million. It is worth remembering too that every time we look at the new bid for funding, and you will be aware that ALMOs have to come back every two years, we evaluate every year—

Q65 Mr Curry: ALMOs still have not got quite the degree of freedom which housing associations have got, have they?

Mr McCarthy: That is right, and we evaluate bids for gap funding. We use up-to-date Building Research Establishment data, so we expect that to be tracking the impact of inflation or deflation within the market, so we have a very consistently updated assessment tool.

Q66 Mr Curry: As we move on then to the specifications themselves and what people regard as decent is likely to change, and when this programme started the pre-occupations about climate change and energy efficiency were less dominant than they are now. To what extent is the programme capable of taking into account those considerations so we do not have to start a large retrofit for energy efficiency almost as soon as we have finished this?

Mr McCarthy: That is a very good question. On the very specific issue of climate change the Government is in the final stages of developing its Household Energy Management Strategy, which was previously called the Heat and Energy Saving Strategy, on which it consulted last year, and that was published by the Department for Energy and Climate Change and our

own Department. We are working actively on that and looking at ways in which we can take further action to improve the energy efficiency standard across our housing, including social housing, whilst recognising the funding model for Decent Homes. Again you will have to wait to see what that strategy says but we are very mindful of the funding arrangements we have established, the funding arrangements we are working on to establish for the future, and the way we can accommodate some new change. You will be aware, again, as I said earlier, that the new housing finance system is designed to bring into the Decent Homes standard communal areas and communal facilities like lifts and the external environment.

Q67 Mr Curry: We have now got not quite a new council house building programme, although Austin might regard it as that, it is not quite the traditional one but at least we have gone back to councils being able to build houses, but how confident can we be that those specifications are not going to be changed 20 years down the road from now?

Mr McCarthy: I can tell you we are extremely confident, and I will let Bob tell you about the detail. We have had fantastic response from local authorities, and the first houses are now being built.

Sir Bob Kerslake: They have to meet the general standards we set for all of the social housing we build, or fund, and we have also set incentives for them to achieve higher energy efficiency. In fact, 90% of the second tranche of local authority housing is targeted to be at Code 4 and above, which is significantly above what we are achieving as a general standard. The evidence suggests that they will deliver all the standards we would expect now for formal housing generally, and a higher standard on sustainability.

Q68 Mr Curry: Can we move the focus a little bit? I can quite understand the importance of including the quality of homes. Indeed, when the Government was asked why so few new homes were being built the answer was, “We have chosen to put our resources into this improvement programme”—a perfectly legitimate choice, but if you go to some parts of England you will find acre after acre of absolutely abandoned housing. If you go to Burnley, East Lancashire, you will find houses that were built when they were thriving mill towns—solid properties, not jerry-built—and you will find the Asian population has migrated out of them, as has the white population in a different direction, and what is left is a stronghold for the BNP and a few local pubs, but literally acre after acre of good housing with absolutely not a soul in it. Now, Austin has pointed out the number of people on waiting lists and, of course, the empty houses are not necessarily where the major demands are, but what can we do, if we are interested in urban regeneration issues more generally, to make sure that in areas like that, where literally you have towns which have practically ceased to exist, we can bring back some form of active occupation of those properties?

Mr McCarthy: From the national policy perspective ministers have been very keen to maintain and not reduce any of the resources going to our housing market renewal programme, which is working in places exactly like Burnley—

Q69 Mr Curry: It is very good and I have visited it.

Mr McCarthy:—and you may be aware that only last week they announced the name of the new company which they have formed working with the six local authorities—

Q70 Mr Curry: I know the background.

Mr McCarthy:—but I think that is really important because it points to the second area which is that not only are they trying to improve the market, and there is evidence that there is some stability that has been achieved in terribly difficult conditions, but they are also working with local authorities to look at future opportunities for economic growth in that area, because it is fundamentally the economy and its future growth that will really influence those markets.

Sir Bob Kerslake: We have recently done a stock take on the housing market renewal Pathfinder, of which Burnley is one in East Lancashire, and what we have found is some have moved towards a point where they have really addressed most of the issues around market failure, they have still some regeneration tasks but they are way better than they were when the programme started, and others like East Lancashire still have quite a job to do. It is exactly as Richard McCarthy says, which is there is a fundamental challenge about the level of housing there and the underlying economy and, therefore, the need for those houses, and the way to handle that is through the changed model they have there for the Pathfinder, and through a robust assessment of housing need going forward. You have to have that before you can defend the level of investment you put in if you are going to avoid the investment going into stock that is not required.

Mr Curry: Thank you.

Q71 Mr Mitchell: Why are you continuing with large-scale voluntary transfer ballots when you have also told us you are changing the nature of the financial game by revising the housing revenue accounts to allow councils to keep more of their money?

Mr McCarthy: It is quite clear that what you have in those areas is either very strong tenant ballots, which confirm that is what tenants wish to do, or others now moving to a ballot and they will make that decision themselves in the light, no doubt, of what else they see emerging as the alternatives.

Q72 Mr Mitchell: That is guesswork.

Mr McCarthy: No, it is about tenant power and allowing tenants to make their own choice, which is why ministers have put them on to that programme.

Q73 Keith Hill: Finally, could I raise a couple of the specific criticisms made by the NAO in relation to cost estimates? One is in paragraph 14 on page 8, which refers to the difficulty in estimating how much the Department is spending of the £16 billion it gave

through the major repairs allowance and the regional pot. Do you accept that the difficulty in identifying how much of that went on the Decent Homes programme is a weakness in the Department's approach?

Mr Housden: It is a fact that it is difficult to isolate those figures but I think it is inherent in the design of the programme. Once you allow the landlord the discretion to improve and enhance, to go beyond the standards and to integrate them with other works, the separate identification of the specific Decent Homes strand can be difficult and uncertain, and some of the data around all of that is less reliable than the other forms we have spoken on.

Q74 Keith Hill: Thank you for that interesting answer. Finally, do you accept the criticism in paragraph 13 on page 8 that "more could be done to make use of the data received from authorities to outline costs, including cost per home made decent, and to identify whether the amount of assistance was reasonable and had been used well"?

Mr Housden: I think we do. That is not to say that we feel we have done nothing in that area but I think the criticism that we could have gone further is valid, yes.

Q75 Chairman: Gentlemen, thank you very much; that concludes our hearing. Clearly laudable things have been done but we need to improve financial control and information, so we would like to have you back, please, in a couple of years' time to make sure that we can be updated on progress in improving financial controls, because it seems to me that there is an issue submerged in the presentation that we have heard this afternoon that you seem to regard strict accountability for large sums of money as optional, and I am sure you do not mean that but that is the tenor of your remark, because the information, you say, is a judgment which you make and there was too much in this case, and I am not sure as a Committee we can accept that. For instance, if we read paragraph 2.14 it tells us that the Department does not have reliable figures for the number of homes made decent, and you could have been much more successful than we have heard today, there may be one million houses made decent or as few as 500,000, so I think we need to return to this issue over the next two years to get a grip on exactly what is going on. Are you happy with that?

Mr Housden: Thank you, Chairman. Yes.

Chairman: Thank you.

Supplementary memorandum from the Department for Communities and Local Government

Question 37 (Mr Mitchell): *Details of the regional allocations to his local authority, North East Lincolnshire, of funding for the private sector element of the Decent Homes programme.*

2008/09—£2,368,000

2009/10—£2,367,000

2010/11—£1,881,000 (provisional—yet to receive Ministerial approval)

Question 41 (Keith Hill): *Details of the increases to the number of non-decent properties as a result of the two changes to the Decent Homes Standard (thermal comfort and the introduction of the HHSRS).*

The figures showing the impact of the introduction of the HHSRS are attached—they are taken from Table A2 of Appendix A in the 2006 EHCS Annual report (pages 243 to 245 which explain the changes).

Table 2

NON-DECENT HOMES—UPDATED DEFINITION AND REVISED THERMAL COMFORT CRITERION

	<i>original definition</i>		<i>updated definition only</i>		<i>updated definition and revised thermal comfort criterion</i>	
	<i>number non-decent (000s)</i>	<i>% of tenure</i>	<i>number non-decent (000s)</i>	<i>% of tenure</i>	<i>number non-decent (000s)</i>	<i>% of tenure</i>
owner occupied	3,704	24.0	5,473	35.4	5,335	34.6
private rented	1,055	40.4	1,298	49.7	1,223	46.8
all private	4,759	26.4	6,771	37.5	6,558	36.3
local authority	695	33.3	801	38.4	676	32.4
RSL	436	23.6	530	28.7	465	25.2
all social	1,131	28.7	1,331	33.8	1,142	29.0
all tenures	5,890	26.8	8,102	36.8	7,700	35.0

Base: all dwellings

Notes:

1) Figures under the initially updated definition of decent homes are those arising from the replacement

of the Fitness Standard by the HHSRS. These figures were originally published in the EHCS 2006: Headline Report in January 2008.

2) Figures under the updated and revised definition also include the adjustment made to how the thermal comfort requirement is implemented in the survey. These are the figures used in the EHCS 2006: Annual Report and in the revised Headline Report published November 2008.

We do not have figures for the impact of the change in the definition of the thermal comfort criterion.

Question 42 (Keith Hill): *Details on the number of tenant refusals and units due for demolition.*

Demolitions averaged 6,000 a year over the last five years, and tenant refusals are 6%. For 2008–09 this was about 32,000 non-decents. (4,000 demolitions and 28,000 refusals). These two together make up 7% of all non-decents.

12 February 2010
