



Localism Bill: a fairer future for social housing

Impact assessment



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Impact assessment

January 2011
Department for Communities and Local Government

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Any enquiries regarding this document/publication should be sent to us at

Communities and Local Government
Eland House
Bressenden Place
London
SW1E 5DU
Telephone: 030 3444 0000

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	Date: January 2011
	Stage: Final
	Source of intervention: Domestic
	Type of measure: Primary legislation
	Contact for enquiries: Cathryn Evans: 0303 4441341

Summary: Intervention and Options

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

Social housing provides decent, affordable homes to around 3.8 million households in England. But the current system fails to provide social landlords with the freedom and flexibility to make the best use of that asset or to maximise the opportunities for tenants and prospective tenants to find suitable accommodation either within or outside the social sector.

Landlords should have powers to manage their stock in line with local priorities, including by assisting households to move on when their circumstances change. Local authorities ought to have the flexibility to discharge the duty they owe to homeless households by offering them suitable accommodation in the private rented sector where this is in the interests of the household and is fair on others waiting to access social housing. People's hopes of accessing social housing should not be falsely raised by the current requirement upon local authorities to operate waiting lists which are open to all, regardless of people's housing need, when there is little prospect of some people ever receiving an allocation. And it is right that tenants should have more opportunities to move to properties and locations right across the country if these better suit them – either as a result of exchanging their dwelling with other social renters or through accessing home ownership.

What are the policy objectives and the intended effects?

The over-riding policy objective is to create a system in which social landlords are able to use greater freedoms and flexibilities to manage their stock and meet the housing needs and aspirations of their tenants and prospective tenants more effectively, in ways that are best suited to local circumstances.

Our preferred proposals should: reduce the size of waiting lists; increase the flow of new tenants into social housing; improve tenants ability to move to another social home both within the local area and beyond; reduce over-crowding within the social sector; reduce the number of households in temporary accommodation; and, alongside recently announced proposals for reforming housing benefit, provide better incentives for tenants to move into and be able to sustain employment.

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

Four related policy areas are covered by this Impact Assessment: allocations, tenure, mobility and homelessness. The options considered for each are set out in the table overleaf. These are expected to lead to changes to the operation of social housing from 2012. Further detail of options and relationships between them can be found in the evidence base.

When will the policy be reviewed to establish its impact and the extent to which the policy objectives have been achieved?

It will be reviewed
01/2015

Are there arrangements in place that will allow a systematic collection of monitoring information for future policy review?

Yes

Ministerial Sign-off For final proposal stage Impact Assessments:

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

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

Summary: Table of Policy Options

*Preferred options are indicated by an asterisk.

Policy	Option	Description	Page ref.
Allocations	1A	Do nothing – leave statutory allocations framework unchanged.	p.17
	1B*	Reduce waiting lists by giving local authorities power to decide who qualifies to be considered for social housing while central government continues to set the rules on priority. Increase mobility by removing most existing tenants wanting to transfer from the allocations system.	p.18
	1C	Restrict eligibility for social housing to households in 'need', with these criteria determined centrally.	p.18
	1D	Grant local authorities complete discretion to prioritise social housing.	p.19
Tenure	2A	Do nothing – do not alter legislation or standards governing tenancy or succession arrangements.	p.32
	2B*	Enable social landlords to make best use of social housing by providing greater freedom to set the terms tenancies and succession rights for new social tenants.	p.32
	2C	Specify that certain types of new tenancies must be granted for fixed terms.	p.33
	2D	Require that all new tenancies be made for fixed terms.	p.33
Mobility	3A	Do nothing – mutual exchange providers continue to offer existing services.	p.56
	3B*	Increase mobility by requiring social landlords to participate in 'home swap' (mutual exchange) schemes through which tenants can search all records of potential partners.	p.56
	3C	Procurement of a single national 'home swap' (mutual exchange) service by government.	p.57
Homelessness	4A	Do nothing – leave homelessness legislation unchanged.	p.70
	4B*	Better meet housing needs and reduce expenditure on temporary accommodation by ending the right that applicants for homelessness assistance have to refuse offers of private sector housing.	p.70

	4C	Strengthen requirements for 'qualifying offers' of private accommodation.	p.70
	4D	Exclude households owed the homeless duty from social housing.	p.70
Financial incentive schemes	5A	Do nothing – do not amend Housing and Regeneration Act	p.83
	5B*	Allow tenants that are members of Housing Associations to benefit from home ownership incentive schemes. ¹	p.83

¹ Only one 'do something' option was identified due to the specific policy objective.

Summary: Analysis and Evidence

Overall package of policy options

Description: Taken together the preferred options would give local authorities power to decide who qualifies to be considered for social housing and greater discretion to end the homelessness duty with offers of suitable private sector accommodation. They would provide social landlords with greater freedom to set terms of tenancies and succession rights for new social tenants, make it easier for social tenants to move via a 'home swap' and open up home ownership incentive schemes to members of housing associations.

Price Base Year 2010	PV Base Year 2010	Time Period Years 30	Net Benefit (Present Value (PV)) (£m)		
			Low: £4,070m	High: £11,590m	Best Estimate: £6,610m
COSTS (£m)		Total Transition (Constant Price) Years	Average Annual (excl. Transition) (Constant Price)	Total Cost (Present Value)	
Low	£4m	3	£8m	£130m	
High	£5m		£37m	£620m	
Best Estimate	£5m		£18m	£300m	
<p>Description and scale of key monetised costs by 'main affected groups'</p> <p>Over the 30 year appraisal period local authorities might incur costs estimated at £82m (£29m-£151m) as a result of the combined impact of the policies. The largest source of cost is predicted to come from authorities' greater use of landlord incentive schemes to secure suitable private sector accommodation for households owed the main homelessness duty. Costs to social landlords could total £218m (£102m-£466m). The majority of costs to social landlords result from actions social landlords take to increase mobility amongst tenants, including developing new tenancy policies, reviewing and granting new tenancies, providing tenants with support and advice, and forgoing rent on dwellings that are vacant. Providers of mutual exchange services that participate in a national home swap scheme might incur costs of £400,000.</p>					
<p>Other key non-monetised costs by 'main affected groups'</p> <p>Changes to waiting list qualification criteria and tenancy contracts might conceivably have some adverse impacts for households that will no longer be able to register for, or to remain in, social housing (since private rents are higher than those for social housing and there is typically less security of tenure). Similar impacts could occur if local authorities make more offers of suitable private rented accommodation to households accepted as owed the main homelessness duty. Low income households in the private rented sector could face stiffer competition for affordable dwellings to rent.</p>					
BENEFITS (£m)		Total Transition (Constant Price) Years	Average Annual (excl. Transition) (Constant Price)	Total Benefit (Present Value)	
Low	£0	n/a	£184m	£4,200m	
High	£0		£498m	£12,210m	
Best Estimate	£0		£320m	£6,910m	

Description and scale of key monetised benefits by ‘main affected groups’

The largest monetary benefit expected from the policy options is a reduction in central government expenditure on housing benefit, brought about by reducing the use of temporary accommodation. Over 30 years it is estimated this could save taxpayers £5.9bn in the central scenario (£3.7bn-£10.4bn), although this is highly uncertain and will depend on how local authorities respond to the flexibility. Together the preferred options are expected to enable local authorities make savings of around £920m (£470m-£1.71bn). These benefits are largely attributable to reducing local authority expenditure on homelessness administration and providing temporary accommodation. It is likely that more efficient management of housing waiting lists will also contribute savings. Introducing a national home swap scheme could save social tenants £3m (£2m-£4m) in subscription fees and cut costs to social landlords of administering transfer lettings by £6m (£3-£7m).

Other key non-monetised benefits by ‘main affected groups’

Existing social tenants will be better able to move house as a result of taking some transfer lettings out of the allocations system and putting in place a national home swap scheme. Increasing mobility within the social sector is likely to benefit social tenants themselves and could have positive external benefits, including from reducing housing need (e.g. overcrowding) and making it easier for tenants to move for work. Tenure reform should increase mobility amongst new social tenants and provide opportunities for landlords to provide new work incentives. Alongside the adoption of smaller, more focussed housing waiting lists by local authorities, this could lead to a shift in tenant behaviour and attitudes towards social housing – reducing the culture of dependency on the state. The reforms should help address perceptions that allocations systems are unfair and avoid creating unrealistic expectations of accessing social housing. Increasing the availability of social housing and giving landlords greater freedoms to determine how it is put to use is likely to lead to fairer outcomes and could have positive distributional impacts. Giving social landlords the ability to support households in the most need of assistance could potentially deliver further savings in the housing benefit bill.

Key assumptions/sensitivities/risks

Discount rate (%)

3.5%

The preferred policy options will provide a range of additional freedoms and opportunities to local authorities, social landlords and tenants. Given the emphasis on localism and flexibilities being proposed, it has not been possible to predict with certainty how these will be used and impacts could differ significantly from the estimates presented here. Therefore, a range of scenarios have been used throughout the Impact Assessment to analyse the costs and benefits that could result from a range of behaviours and the estimates produced reflect this approach. It is important to stress that ultimately these will depend on how local authorities respond to the different measures, which cannot be predicted in advance, although we think, and initial feedback supports this view, the scenarios we have used cover the range of plausible outcomes. This needs to be taken into account throughout this Impact Assessment.

A key assumption for the analysis of changes to the homelessness legislation is that local authorities will use offers of suitable private rented accommodation to bring between 33 per cent and 76 per cent of main homelessness duties to an end (central scenario 59 per cent compared to around 7 per cent at present). Estimated costs associated with landlord incentive schemes, and the benefits of reducing local and central government expenditure on homelessness, are sensitive to this assumption and the implied reduction in households in temporary accommodation. Housing benefit savings from temporary accommodation are assumed to provide economic benefits, rather than a transfer, by cutting the amount of resources that need to be devoted to housing provision.

Impact on admin burden (AB) (£m):			Impact on policy cost savings (£m):	In scope
New AB: £0	AB savings: £0	Net: £0	Policy cost savings:	Yes/No

Enforcement, Implementation and Wider Impacts

What is the geographic coverage of the policy/option?	England				
From what date will the policy be implemented?	01/04/2012				
Which organisation(s) will enforce the policy?	HM Courts Service				
What is the annual change in enforcement cost (£m)?	£0				
Does enforcement comply with Hampton principles?	Yes				
Does implementation go beyond minimum EU requirements?	N/A				
What is the CO ₂ equivalent change in greenhouse gas emissions? (Million tonnes CO ₂ equivalent)	Traded: £0		Non-traded: £0		
Does the proposal have an impact on competition?	Yes				
What proportion (%) of Total PV costs/benefits is directly attributable to primary legislation, if applicable?	Costs:		Benefits:		
Annual cost (£m) per organisation (excl. Transition) (Constant Price)	Micro	< 20	Small	Medium	Large
Are any of these organisations exempt?	No	No	No	No	No

Specific Impact Tests

Does the policy proposal have an impact on...?	Impact	Page ref within IA
Statutory equality duties² <u>Statutory Equality Duties Impact Test guidance</u>	No	p.94
Economic impacts		
Competition <u>Competition Assessment Impact Test guidance</u>	Yes	p.62
Small firms <u>Small Firms Impact Test guidance</u>	Yes	p.95
Environmental impacts		
Greenhouse gas assessment	No	p.95
Wider environmental issues	No	p.95
Social impacts		
Health and well-being <u>Health and Well-being Impact Test guidance</u>	No	p.95
Human rights <u>Human Rights Impact Test guidance</u>	No	p.95
Justice system <u>Justice Impact Test guidance</u>	Yes	p.94
Rural proofing <u>Rural Proofing Impact Test guidance</u>	No	p.95
Sustainable development <u>Sustainable Development Impact Test guidance</u>	No	p.95

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

Evidence Base (for summary sheets) – Notes

References

No.	Legislation or Publication
Policy association - Allocations	
1	Fair and flexible: statutory guidance on social housing allocations for local authorities in England (DCLG, 2009) www.communities.gov.uk/publications/housing/allocationsstatutoryguidance
2	Exploring local authority policy and practice on housing allocations (DCLG, 2009) www.communities.gov.uk/publications/housing/exploringallocationspractice?view=Standard
3	Social housing and worklessness: qualitative research findings (Department for Work and Pensions Research Report no. 521, 2008) http://campaigns.dwp.gov.uk/asd/asd5/rports2007-2008/rrep521.pdf
4	Monitoring the Longer Term Impact of Choice Based Lettings (DCLG, 2006) www.communities.gov.uk/documents/housing/pdf/152612.pdf
Policy association – Tenure	
5	The relationship between public housing wait lists, public housing tenure and labour market outcomes: National Research Venture 1: Research Report No. 9, for Australian Housing and Urban Research Institute (Dockery et al, 2008) www.ahuri.edu.au/publications/.../nrv1_research_paper_9
6	A typology of social housing lettings using CORE: Centre for Housing and Planning Research, University of Cambridge report for Department for Communities and Local Government (2007)
7	Low income dynamics 1991-2008 Great Britain (Department for Work and Pensions, 2009) http://campaigns.dwp.gov.uk/asd/index.php?page=lid
8	Ends and means: the future roles of social housing in England (Hills, J., London School of Economics, 2007) http://eprints.lse.ac.uk/5568/1/Ends_and_Means_The_future_roles_of_social_housing_in_England_1.pdf
9	Housing Poverty: from Social Breakdown to Social Mobility (Centre for Social Justice, 2008) www.intute.ac.uk/cgi-bin/fullrecord.pl?handle=20081204-11111858
Policy association – Mobility	
10	Report of the Mobility Task force (August, 2010) www.housing.org.uk/default.aspx?tabid=289&mid=2076&ctl=Details&ArticleID=3177
11	Trends in Housing Association Stock in 2009 (Cambridge Centre for Housing and Planning Research, University of Cambridge, 2010) www.dataspring.org.uk/Downloads/2010-06%20Trends%20in%20Housing%20Association%20Stock%20in%202009%20FINAL.pdf
Policy association - Homelessness	
12	P1E Homelessness returns (DCLG) www.communities.gov.uk/housing/housingresearch/housingstatistics/housingstatisticsby/homelessnessstatistics/publicationshomelessness/

13	Homes for the Future – a new analysis of housing demand and need in England (Shelter, 2009) http://england.shelter.org.uk/professional_resources/policy_library/policy_library_folder/homes_for_the_future_-_a_new_analysis_of_housing_need_and_demand_in_england
14	Statutory Homelessness in England: the experiences of families and 16-17 year olds (DCLG, 2008) www.communities.gov.uk/publications/housing/experienceoffamilies
15	A route to homelessness? A study of why private sector tenants become homeless (Shelter, 2008) www.york.ac.uk/inst/chp/Projects/PRShomelessness.htm
16	The Private Rented Sector: its contribution and potential (The Centre for Housing Policy, 2008) www.york.ac.uk/inst/chp/publications/PDF/prsreviewweb.pdf
17	The future of social housing (Shelter, 2008) http://england.shelter.org.uk/shop/publications/policy_reports/future_of_social_housing
Policy association - Generic	
18	Continuous Recording (CORE) of Lettings (DCLG, 2008) www.communities.gov.uk/publications/corporate/statistics/sociallettings200809
19	Housing Strategy Statistical Appendix (DCLG, 2009) www.communities.gov.uk/publications/corporate/statistics/lahousing200809
20	Survey of English Housing (DCLG, 2008) www.communities.gov.uk/publications/corporate/statistics/housingengland200708
21	English Housing Survey (DCLG, 2009) www.communities.gov.uk/housing/housingresearch/housingsurveys/englishhousingsurvey/
22	Guide to local rents 2009 Part 1: Cross Tenure Rents Cambridge Centre for Housing and Planning Research, University of Cambridge, 2010) www.dataspring.org.uk/projects/detail.asp?ProjectID=78
23	Housing and Regeneration Act 2008 www.legislation.gov.uk/ukpga/2008/17/contents
24	Estimating housing need (DCLG, 2010) www.communities.gov.uk/publications/housing/estimatinghousingneed
25	Local decisions: a fairer future for social housing (DCLG, 2010) www.communities.gov.uk/publications/housing/socialhousingreform

Evidence Base (for summary sheets)

Introduction

This Impact Assessment brigades and considers the cumulative impact of a range of policy proposals which relate to the social housing sector.³ These include:

- greater freedoms for local authorities to decide which households qualify to register on waiting lists for social housing, so that lists are focussed on those in greatest housing need, and taking most transfer lettings out of the allocations system
- increased freedoms for social landlords on tenancies
- introducing a nationwide social home swap programme to increase opportunities for social tenants to move within the sector
- the freedom for local authorities to bring the homelessness duty to an end with an offer of suitable accommodation in the private rented sector
- ensuring fairness by not precluding housing association tenants that are members of their landlord's organisation from incentive schemes which facilitate moves out of the social rented sector into home ownership.

Problem under consideration and rationale for government intervention

Social housing provides decent homes at sub-market rents to around 3.8 million households in England. But the current system fails to provide social landlords with the freedom and flexibility to make the best use of that asset or to maximise the opportunities for tenants and prospective tenants to find suitable accommodation either within or outside the social sector.

A range of indicators typify the problem. There are nearly 1.8 million households on social housing waiting lists, a substantial increase since the late 1990s. While many of those are in real need – recent analysis by Shelter⁴ indicates that there is a backlog of over half a million households requiring social rented homes who were living in temporary accommodation or accommodation that was overcrowded or otherwise unsuitable – many on waiting lists may have no need for social housing, for instance if their circumstances have changed for the better during time spent on the list. Despite significant progress at reducing homelessness, 50,400 families in England are living in temporary accommodation awaiting an offer of social housing.⁵

Fewer than 5 per cent of households move within the social housing sector each year compared to almost a quarter of private renters. At the same time around a quarter of a million households within the social sector are overcrowded, whilst over 400,000 are under-occupying their properties by two bedrooms or more.⁶

Many social tenants aspire to own a home. Around 13,000 former social renting households moved into owner-occupation in the past year.⁷ Tenants who need some support to make this leap can benefit from Right to Buy, Right to Acquire and Low Cost Home Ownership. However, Right to Buy and Acquire sales have fallen to 3,100 in 2009-10 from a peak at over 170,000 per year in 1982-83.⁸

³ See also DCLG (2010) *Local decisions: a fairer future for social housing*.
www.communities.gov.uk/documents/housing/pdf/1775577.pdf

⁴ Holmans A., Monk S. & Whitehead C. (2009) *Homes for the Future – a new analysis of housing demand and need in England*. Shelter.

⁵ DCLG (2010) *Statutory Homelessness 2nd Quarter 2010*.

⁶ DCLG (2009) *Survey of English Housing 2007-08*.

⁷ DCLG (2010) *English Housing Survey 2008-09*.

⁸ DCLG, Live Table 671

Levels of worklessness in the social rented sector are high and rising. In 2008-09 only 49 per cent of social tenants of working age were in work compared to 71 per cent in 1981.⁹ Around 60 per cent of social rented households report that they are in receipt of housing benefit.

Government sets the legal and regulatory framework governing the allocation of social homes, the types of tenancies which are provided, the rights of tenants to exchange their homes and the support provided to homeless households. A new, local approach to intervention is expected to tackle these problems more effectively.

Policy objectives and intended effects

The over-riding policy objective is to create a system in which social landlords are able to use greater freedoms and flexibilities to manage their stock and the housing needs and aspirations of their tenants and prospective tenants more effectively and in a way best suited to local circumstances.

The government's preferred proposals are intended to: reduce the size of waiting lists; increase the flow of new tenants into social housing; improve tenants' ability to move to another social home both within the local area and beyond; and reduce over-crowding within the social sector; reduce the number of households in temporary accommodation. New affordable rents will complement the new flexibilities on tenure by providing alternatives to traditional social rent.

Overall package of policy options

Taken together, the preferred options will combine to form a wide-ranging package of reforms to social housing. They will provide social landlords with considerably greater freedoms to manage their stock in ways that best suit local circumstances. Local authorities will be free to set the rules governing who joins housing waiting lists (subject to the eligibility provisions) and to decide how best to bring the homelessness duty to an end with an offer of settled accommodation, in light differing housing needs and aspirations in local areas. Social landlords will have the freedom to grant tenancies of different lengths and to determine the priority given to tenants wishing to transfer within the sector.

The proposals will create a system where there is likely to be greater mobility both between and within social housing and other tenures. This could mean more lettings available to be allocated to households with greater needs, making reductions in overcrowding and other poor housing outcomes a possibility. Social tenants will be better able to move – for work or personal reasons – either by applying to their landlord or identifying a home swap direct with another tenant. Costs to taxpayers from providing temporary accommodation and other housing support could also be lower as a result.

Annex 4 of this Impact Assessment (p.84) considers the combined costs of the different policy options to registered providers of social housing and also small costs to firms who provide mobility/mutual exchange schemes.

A summary of the proposed policy options is provided below:

⁹ Office for National Statistics, Labour Force Survey 1981; DCLG, English Housing Survey 2008-09

Option	Description
1B	Local authorities to decide who gets on the waiting list; central government continues to set the rules on priority. Most existing tenants wanting to transfer are removed from the allocations system.
2B	Social landlords given the freedom to set the terms of new tenancies and succession rights for new social tenants.
3B	Social landlords are required to participate in mutual exchange schemes through which tenants can search all records of potential partners.
4B	End the right to refuse offers of private sector housing that applicants for homelessness assistance have. Allow local authorities discretion over how best to use available social housing.
5	Amend legislation so that tenants that are members of Housing Associations can benefit from home ownership incentive schemes.

Structure of the Impact Assessment

This Impact Assessment is broken down into several sections, which consider each policy area in turn. Each section provides information on the background to each policy and details the problems in the social housing sector that merit reform. Following this the rationale for making a policy change is explained and several options for reform are outlined.

The costs and benefits of the preferred options are subsequently assessed. As noted in the introduction, given the localist approach, we have based the analyses on a range of behavioural scenarios. It should be noted that the impacts of each option are assessed over a time horizon of 30 years, whereas a 10 year appraisal period is used for most other Impact Assessments of Localism Bill policies. This has the effect of increasing the apparent magnitude of impacts so a summary of impacts over a 10 year period is provided in Annex 5.

As well as analysing the impacts of each option in turn, consideration is given to the cumulative impacts of the reforms. This section of the Impact Assessment brings together the salient points relating to each of the preferred policy options and takes into account the inter-relationships between them. This forms our best assessment of the overall net benefits likely to follow from the changes, as set out on the overall summary analysis and evidence page (see p.3, above).

The table of contents below shows where information on each of these areas may be found:

Contents	
Allocation of social rented dwellings	p.12
Tenure and succession framework	p.28
Mobility within the social sector	p.51
Homelessness	p.66
Moves out of the social rented sector	p.83
Summary of overall package of policies	p.84
Annex 1: Post Implementation Review	p.90
Annex 2: Common Assumptions	p.92
Annex 3: Specific Impact Tests	p.94
Annex 4: 'One in one out' regulatory impacts	p.97
Annex 5: Summary of impacts over 10 years	p.99

Summary: Analysis and Evidence

Allocations Policy - Option 1B

Description: Give local authorities power to decide who qualifies to be considered for social housing while central government continues to set the rules on priority. Existing tenants, without reasonable preference, wanting to transfer are removed from the allocations system.

Price Base Year 2010	PV Base Year 2010	Time Period Years 30	Net Benefit (Present Value (PV)) (£m)		
			Low: -£25m	High: £37m	Best Estimate: £7m

COSTS (£m)	Total Transition (Constant Price) Years	Average Annual (excl. Transition) (Constant Price)	Total Cost (Present Value)
Low	£2.5	£2.5	£45m
High	£1.5	£11.3	£196m
Best Estimate	£2.4	£5.2	£92m

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

All 326 local authorities are expected to incur a one-off cost from familiarising themselves with new freedoms to manage waiting lists: between £290,000 and £1.2m (central case £770,000). Adapting and publicising their policies and procedures will also have costs for local authorities; these might amount to between £400,000 and £3.7m (central £1.6m) depending on take-up. Increasing transfer lettings could have costs for social landlords in the form of additional administration and foregone rental income. These might range from £43m to £194m depending on the number of extra lettings to existing tenants (central case £92m).

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

Changes to waiting list qualification criteria might conceivably have some adverse impacts for households that will no longer be able to register for social housing. However, as the prospects of such households being allocated social housing were remote, and the priority given to different categories of applicants in the allocation of social housing will not change, this appears minimal.

BENEFITS (£m)	Total Transition (Constant Price) Years	Average Annual (excl. Transition) (Constant Price)	Total Benefit (Present Value)
Low	£0	£2.7	£82m
High	£0	£12.8	£172m
Best Estimate	£0	£6	£99m

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

Local authorities that carry out relatively more significant adaptations to their waiting list policies and procedures are likely to be able to realise efficiency savings when managing waiting lists and processing applications for housing. Together these benefits might range between £8m and £45m over a 30 year period, depending on take-up by local authorities (central case £23m). By enabling social landlords to make better use of social housing – reducing under-occupation – government expenditure on housing benefit could be reduced by between £163m and £36m (central case £76m).

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

Providing the freedom for local authorities to amend waiting list policies might lead to the adoption of clearer, more easily understood systems for allocating social housing. Smaller, more focused waiting lists are more likely to be understood by local residents, which should help to address perceptions that allocations systems are unfair and avoid creating unrealistic expectations of accessing social housing. Increasing mobility within the social sector by taking non-priority transfer lettings out of the allocations system is likely to benefit existing social tenants by helping to address under-occupation and overcrowding.

Key assumptions/sensitivities/risks	Discount rate (%)	3.5%
-------------------------------------	-------------------	------

The key assumptions underpinning the cost-benefit estimates regard the proportion of local authorities that will respond to the new freedoms by introducing new waiting list policies (taken to vary between 25 per cent and 75 per cent), the level of increase in lettings to existing social tenants after transfers are taken out of the allocations framework (taken to rise by 2.5, 5, or 10 percentage points) and the proportion of these lettings that result in better use of the stock. These will depend on local responses to the policies by local authorities and social landlords. Impacts are likely to vary significantly from one area to another as a result.

Impact on admin burden (AB) (£m):			Impact on policy cost savings (£m):	In scope
New AB: £0	AB savings: £0	Net: £0	Policy cost savings:	Yes/No

Evidence Base (for summary sheets) – Allocations Policy

Description of policy options

Summary of key points:

Waiting lists for social housing

- Local authorities are currently required by law to operate so-called ‘open’ waiting lists, which means almost anyone is eligible to register for social housing on a local authority waiting list, regardless of whether or not they need social housing.
- This is likely to have contributed to a steep rise in waiting list numbers and may have increased costs for local authorities that administer waiting lists.
- Open waiting lists have also created unrealistic expectations that anyone is able to access social housing if they wait long enough, and thus given rise to unrealistic perceptions of entitlement and of unfairness when someone in greater need is given high priority.
- The preferred option would provide local authorities with the freedom to set the rules determining which categories of applicants qualify to be considered for social housing. The rules determining which applicants receive priority for social housing would continue to be set centrally via the statutory ‘reasonable preference’ categories.
- Other options included restricting the grounds on which households qualify for social housing to a set of centrally defined ‘needs’, or full devolution of control over allocation of social housing to local authorities. These were ruled out on the grounds that they would not strike an appropriate balance between local circumstances and meeting the needs of vulnerable households.

Transfers

- Transfers within the social sector (by existing local authority and assured tenants) are currently governed by the allocation framework.
- This makes it difficult for landlords to manage stock in the manner best suited to local circumstances, hampering action to address under-occupation and over-crowding, and may be behind a drop in social lettings to existing tenants.
- The preferred option would take most existing social tenants seeking a transfer out of the allocations system while ensuring that those in housing need (ie in Reasonable Preference categories) continue to get priority for social housing.

Background on allocations system

The way local authorities allocate social housing is governed by a statutory framework contained in Part 6 of the Housing Act 1996. The allocation legislation applies where a local authority lets a secure or introductory tenancy within its own stock, nominates a person to be a

secure or introductory tenant of accommodation held by another person and nominates a person to be an assured tenant of a housing association.

Legislation provides that every local housing authority must have an allocation scheme, which must be framed so that 'reasonable preference' for an allocation goes to certain categories of persons. These are people who:

- are homeless/owed a duty under the homelessness legislation
- live in overcrowded, unsatisfactory or insanitary conditions
- need to move on medical or welfare grounds (including grounds relating to disability)
- need to move to a particular locality to avoid hardship.

Analysis of lettings data indicates that in 2008-09 around 90 per cent of new general needs lettings went to households in some form of 'reasonable preference'.¹⁰

In addition, allocation schemes may, but are not required to, be framed to give additional preference (higher priority) to people in the 'reasonable preference' categories with urgent housing needs. Schemes can also include factors for determining priorities between applicants in the 'reasonable preference' categories. Examples of factors given in legislation are: financial resources, behaviour, and local connection.

Under the current system, local authorities are required by law to operate so-called 'open' waiting lists. This means anyone is eligible for social housing, with the exception only of persons from abroad specified in regulations and people guilty of serious unacceptable behaviour.

The requirement to operate open waiting lists was introduced in the Homelessness Act 2002 (which came into force in January 2003) with the aim of ensuring the widest possible access to social housing. Prior to this, local authorities were required to maintain a register of housing applicants but had the power (subject to certain qualifications, e.g. in respect to persons from abroad) to determine what classes of persons qualified, or did not qualify, to go on that register. Open waiting lists mean that (with certain specified exceptions) anyone can register with any one (or more) local authority, whether or not they have an identified need for social housing.

The 2002 Act also brought existing local authority tenants seeking a transfer (and assured tenants seeking a transfer to local authority accommodation) within the allocation framework. Prior to this, the allocation legislation did not apply to any existing local authority or to most housing association tenants.

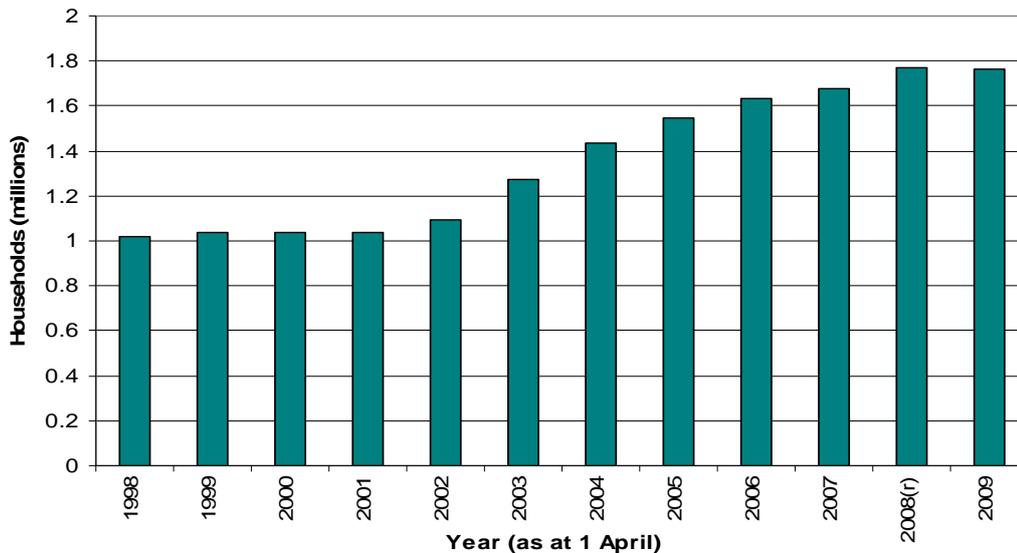
Problem under consideration

The introduction of open waiting lists seems likely to have played a part in causing more households to register for social housing. In 1998 waiting list numbers were 1.02 million, and remained below 1.1 million until 2002. The introduction of open waiting lists in 2003 coincided with a steep rise in waiting list numbers, which reached 1.77 million in 2008. In 2009, overall waiting list numbers remained stable at 1.76 million. This represents a 61 per cent rise over 2002 levels.¹¹

¹⁰ CORE, DCLG, unpublished

¹¹ DCLG, Housing Strategy Statistical Appendix (HSSA) 2009

Chart 1: Number of households on local authority waiting lists, England



Source: Housing Strategy Statistical Appendix (HSSA)

Footnote to above chart: Where local authorities and Registered Providers of housing operate a common register, households registered with the housing association will be included on the "local authority" waiting list. However, housing associations are independent bodies and can maintain their own waiting lists.

Open waiting lists may have contributed to the steep rise in waiting list numbers by fuelling an unrealistic expectation that anyone is able to access social housing provided they wait long enough. We recognise, however, that other factors may also have contributed to the increase in waiting list numbers since 2003. For example, the introduction of choice-based approaches to the letting of social housing – from 2000 – is highly likely to have had an impact on the size of waiting lists. *Monitoring the Longer Term Impact of Choice Based Lettings*¹² shows that 'choice based lettings' generates interest in social housing, including among those groups which are traditionally under-represented in social housing, for example people in employment.

Waiting lists do not accurately reflect the level of demand for social housing; nor are they a good guide to the number of households in urgent housing need (experiencing poor housing outcomes). The accuracy of waiting lists depends on the extent to which housing authorities keep the register up-to-date, e.g. some people might already have found housing, yet remain on the list. There may also be a double counting issue, as applicants can register on more than one local authority list.

As well as only providing approximate estimates of those seeking social housing, waiting lists present a very poor indicator of those who are in housing need. Limited information about the characteristics of households on waiting lists indicates that around 40 per cent of households on waiting lists are classed as being in a 'reasonable preference' group.¹³

Managing large waiting lists can be administratively burdensome for local authorities, and having so many households registered for social housing might hinder rather than help the process of allocating a limited supply of social housing by making record management more complex. *Exploring local authority policy and practice on housing allocations*¹⁴ sheds some light on how some local authorities are managing waiting lists, although it is a small-scale study carried out in two regions – South West and Yorkshire and Humber – so the findings are indicative and not necessarily nationally representative. It shows that most local authorities carried out a review of waiting lists to take out deadwood applications on an annual basis. On

¹² Pawson H. et al (2006), DCLG

¹³ DCLG, Housing Strategy Statistical Appendix (HSSA) 2009

¹⁴ Pawson H. et al (2009), DCLG

average, the most recent waiting list reviews had resulted in the deletion of a quarter of previously registered applicants. The study also found very limited practices for review meetings for households remaining on the waiting list for long periods. In most authorities review meetings took place only at the applicant's request.

The number of moves within the social sector has declined over time. The number of social lettings made to existing tenants declined from 185,000 in 1998 to 114,000 in 2009.¹⁵ This was driven exclusively by a drop in the number of *local authority* lettings to existing tenants (down 71 per cent); there was no clear trend in the number or percentage of lettings made to existing tenants by Registered Providers of housing. The decrease in the number of local authority lettings to existing tenants took place in a period when the overall number of local authority lettings fell significantly (down 62 per cent excluding mutual exchanges).¹⁶ However, one reason why the share of local authority lettings going to existing tenants fell from 30 per cent to 23 per cent over the period might have been because these lettings came within the scope of the allocations system and the households concerned do not have sufficient priority under the local authority's allocation scheme compared to households on the waiting list.

Rationale for intervention and policy objectives

The current legislative framework is contributing to the development of unrealistic expectations of access to social housing. People's hopes should not be falsely raised by the requirement upon local authorities to operate waiting lists for social housing which are open to almost everyone, when there is little prospect of some people ever receiving an allocation, as well as no real need. The current rules have contributed to a significant rise in the number of households registered on waiting lists, leading to inefficiencies in the management of waiting lists by local authorities. We consider that it would be more efficient and more easily driven by local needs and priorities if councils were able to put in place more streamlined waiting lists and had discretion to manage these more closely.

Many social landlords provide support and incentives to tenants who wish to move to smaller properties. We consider, though, that further measures are necessary to give local authorities greater flexibility to make better use of their stock, and to make it easier for their existing tenants to move within the social sector, without increasing the risk of legal challenge from applicants in greater need on the waiting list.

Our proposed reforms are designed to give greater discretion to all social landlords to focus support on those who need it most and to enable them to make better use of limited housing stock.

Policy options

Option 1A – Do nothing

This option was rejected as the current system only affords local authorities limited flexibility to meet the individual needs of households and respond to local circumstances. The current legislative framework is unduly raising expectations of access to social housing among those who have no real need for it. It also makes it difficult for existing tenants who wish to transfer to move to a new social home, because their application must currently be considered alongside those on the waiting list in 'reasonable preference' categories.

¹⁵ DCLG, Continuous Recording of Lettings (CORE) and HSSA 2009

¹⁶ The transfer of local authority stock to Registered Social Landlords over this period may have contributed to the trends in letting numbers.

Option 1B – Local authorities decide who gets on the waiting list; central government continues to set priority rules; remove existing tenants (without reasonable preference) wishing to transfer from the allocations system

This is the **preferred option**. Under this option, the rules determining which categories of applicants qualify to be considered for social housing would be decided at the local level. The rules determining which applicants receive priority for social housing would continue to be set centrally via the statutory ‘reasonable preference’ categories.

Central government would also continue to prescribe which persons from abroad are ineligible for social housing. Otherwise, it would be for local authorities to decide who would come within the framework for social housing in their area. This would be similar to the situation before the introduction of ‘open waiting lists’ in 2003 (following changes introduced by the Homelessness Act 2002). We know that some local authorities are already operating closed waiting lists which are restricted to those in greatest housing need (e.g. the homeless, overcrowded families).

Those who are not permitted to join the waiting list would benefit from advice and information on their housing options, for instance on renting in the private sector or low cost home ownership. A number of authorities already offer some form of Housing Options Service. If more authorities adopt such an approach alongside a more managed waiting list this could have some cost implications, albeit offset by administrative savings from operating a smaller waiting list.

We also propose to take most existing social tenants seeking a transfer out of the allocations system in order to improve mobility. This will assist social landlords to focus on making better use of their stock – for example by using transfers as a means to create chains of lettings which address under-occupation and over-crowding or free-up accommodation adapted to the needs of disabled people. It will benefit tenants seeking a transfer as they will no longer have to compete with tenants who have a higher priority under a council’s allocations scheme. Nevertheless, we want to avoid any possibility that it could make it more difficult for tenants in Reasonable Preference categories to move by taking away their priority. Therefore, existing social tenants who are assessed as having Reasonable Preference will continue to have priority for social housing.

Option 1C - Only households in housing need qualify for social housing

Under this option, only those in identified housing need would qualify for social housing. What constitutes ‘housing need’ would be determined centrally (i.e. the existing ‘reasonable preference’ categories – broadly homeless people, overcrowded families, those with a medical and welfare need to move). Local authorities would have discretion to determine priorities between applicants. So, for example, they might give more priority to people in overcrowded accommodation over those needing to move to avoid hardship, or they might determine priority between applicants by waiting time alone. Those with a poor tenancy record, or sufficient financial resources to live in the private sector, might be given less priority or local authorities could be given the power to exclude them altogether.

This option would ensure that social housing is only given to those who need it most, would result in smaller, more manageable waiting lists, and would reduce unrealistically high expectations of access to social housing. Potentially this could reduce the Housing Benefit bill, since it is likely to result in more households on Housing Benefit being housed in the social sector on lower rents than in the private rented sector. However, **this option was rejected** as it would deny local authorities the opportunity to manage waiting lists according to local circumstances and incorporate their own local priorities alongside ‘reasonable preference’ categories.

Option 1D – Local authorities decide who qualifies and who has priority for social housing

Under this option, local authorities would have full discretion to decide who qualifies for social housing (as with option 1A) and who has priority for social housing. This option would replace the current system of centrally-prescribed 'reasonable preference' categories with a legal framework that gave local authorities discretion to set their own priorities, perhaps under a broad duty to meet housing need in their area. This would leave local authorities free to set their own allocation priorities for the majority of their lettings.

While enabling local priorities and circumstances, **this option was rejected** as it might result in those in greatest housing need not being able to access social housing and could hamper mobility. It could also result in extreme differences in access to social housing across geographic areas.

Costs and benefits

Baseline for appraisal

Since 2008 waiting list numbers appear to have stabilised at around 1.8 million households. If no changes were made to legislation, then in future years we might expect the level of demand for social housing to remain at similar levels. There would be little change to the way local authorities maintain these waiting lists.

Local authorities are also likely to continue allocating social housing in broadly the same ways as at present, although some may make changes to lettings policies in light of revised statutory guidance on allocations, published in 2009.¹⁷ This encouraged local authorities to make more use of available flexibilities when tailoring allocations policies to local circumstances, for instance giving priority within the Reasonable Preference categories to households which have strong local connections to an area or who were contributing to the local economy or community. As a result there might be more variation in the allocation of social housing in future, with a greater range of household circumstances taken into account alongside the 'reasonable preference' groups.

Lettings to existing social tenants would continue to be subject to allocations priorities if legislation was not amended and the number of social tenants moving within the sector, which has been at 110,000 for each of the last three years, might remain at around current levels.¹⁸

Changes following from preferred option

If preferred option, 1B, is implemented then local authorities would acquire the freedom to set rules governing what types of applicants qualify to be considered for social housing. These changes to local authorities' powers are likely to come into force around 2012, after which it is likely that a growing number of authorities will adopt more restrictive criteria for registration on housing waiting lists. It is not possible to predict the way in which local authorities will respond to these new flexibilities, e.g. in terms of what sort of selective criteria they might adopt. There could be significant local variation. We know, though, that many authorities are keen to give some greater weight to residency criteria. It is also conceivable that a number of authorities may decide to continue to operate open waiting lists, for instance, in areas where it might be thought necessary to stimulate demand for social housing.

¹⁷ DCLG (2009), *Fair and flexible: statutory guidance on social housing allocations for local authorities in England*

¹⁸ DCLG, CORE and HSSA 2009

As social landlords will have discretion about whether and to what extent they make use of the new freedoms we propose to offer, it is difficult to predict the exact impact that will result from amending the legislation. Local authorities experiencing the greatest pressures on social housing are likely to be more inclined to amend waiting list policies since this might enable them to better manage the allocation process and avoid creating false hope amongst residents. In areas where demand for social housing is lower local authorities might be less likely to restrict access to waiting lists as there would be a greater prospect of this resulting in vacant properties. Data show that the number of households waiting for social housing is less than a third of the stock of social housing in around a quarter of local authorities.¹⁹ These authorities might be considered unlikely to amend their waiting list policies.

In the absence of firm evidence on local authorities' and housing associations' likely responses we present several scenarios in order to illustrate the range of outcomes that is likely to result: 25 per cent, 50 per cent and 75 per cent take-up by local authorities.

Costs

All 326 local authorities will have to take action to familiarise themselves with the new flexibilities and will incur some costs as a result of staff time spent on this exercise. We assume that, as a result of the requirement upon local authorities to maintain housing waiting lists, relevant staff at local authorities will need to consider how the new freedoms affect their organisation in the year after changes are made. Assuming that, on average, this process takes up two days of time for clerical, junior and middle management staff, as well as a day of a senior manager's and half a day of a director's time, familiarisation costs might be £2,500 per local authority.²⁰ Table 1 below presents estimates of the total familiarisation costs for all local authorities in England, allowing for the possibility that more or less staff might be required to become familiar with the new freedoms (costing between £1,000 and £4,000 per authority).

Table 1: Scenarios for costs of familiarisation with freedoms to manage waiting lists

Costs, £m	Scenario		
	High cost	Central	Low cost
'Familiarisation' with policy – to all local authorities	£1.2	£0.8	£0.3

Local authorities that decide to take advantage of the new freedoms to manage their waiting lists will also incur costs when adapting their policies and procedures to local circumstances. For example, from revising systems for handling applications to join the waiting list or making IT changes. Costs from adopting a more closed waiting list policy might be around £11,000 since this could take several weeks staff time and associated overheads (ranging from £5,000 to £16,000). Table 2 below sets out estimated total costs to local authorities in England, assuming that either 25 per cent, 50 per cent or 75 per cent respond to the new freedoms and adaptation costs vary as described.

Table 2: Scenarios for costs of adapting policies and procedures

Costs, £m	Scenario		
	Low take up (25%)	Central (50%)	High take up (75%)
Adapting waiting list policies and procedures - to local authorities that do so	£0.4	£1.6	£3.7

¹⁹ DCLG, Live Tables 100 and 600

²⁰ Assumptions regarding staff wage costs are detailed in the 'common assumptions' section, below.

Total one off costs to local authorities in England might therefore range between £700,000 and £3.9m, with the central estimate at £2.4m.

As well as costs for local authorities, relaxing open waiting list rules might have some adverse impacts for certain categories of household i.e. costs for households that will no longer be able to register for social housing. Local authorities will be free to set the criteria for joining the waiting list, in accordance with local circumstances. Criteria might include, housing need, financial circumstances, residency or local connection, and past tenancy record, for example.

The number of households on waiting lists for social housing is highly likely to fall as a result of some local authorities placing new restrictions on qualification. The priority given to different categories of applicants in the allocation of social housing will not change, however, as the statutory Reasonable Preference categories will remain in force. Consequently there is unlikely to be much change in the types of household accessing social housing. Most lettings are already allocated to households in 'reasonable preference' groups (around 90 per cent²¹) despite the fact that only around 40 per cent of households on the waiting list are in 'reasonable preference' categories. This suggests that the mix of households that comprise waiting lists is not an important driver of allocations in circumstances where there are more 'needy' households than available lettings. On the basis that households in 'reasonable preference' categories are likely to continue to express high levels of demand for social housing we consider that new waiting list policies will not significantly affect the mix of households which are allocated social housing.

Some localised alteration in the mix of households accessing social housing may occur in certain local authority areas though – particularly areas that currently house more people that are not in 'reasonable preference' groups. In such cases, the new qualification criteria may have more of an effect on lettings outcomes, i.e. more lettings may go to those in 'reasonable preference' groups, with low-incomes or with local connections. This would have the effect of displacing some other households (e.g. those with better alternative housing options, with higher incomes, or people who are new to the area) from social housing or causing them to wait longer to do so. These households might face higher rents in the private rented sector and government might contribute towards this cost in cases where they do qualify for Housing Benefit. Any such impacts will be distributional since they would be offset by reductions in rental, and Housing Benefit, payments for more 'needy' households.

Removing lettings to existing social tenants from the scope of the allocations system might also have distributional impacts for households. This will make it easier for social renters to move within the sector by allowing landlords to prioritise lettings to these households, should they choose. In some cases this may be to the detriment of particular households on the waiting list that are in a 'reasonable preference' category, since they might have to wait longer to access social housing. Every transfer within the social stock ultimately frees-up another social dwelling though, so the amount of social properties available for letting to households on the waiting list will not be affected. Only the type of properties available might change. For instance, landlords might seek to increase availability of larger dwellings by prioritising downsize moves by existing tenants that do not require all available bedrooms; this would tend to benefit families at the expense of smaller households on the waiting list.

Lettings to existing tenants have consistently accounted for around 30 per cent of all social lettings in recent years (34 per cent of lettings made by Registered Providers of housing compared to 23 per cent of local authority lettings).²² For simplicity it is assumed that the number of new social lettings will remain at approximately the current level (260,000) – driven by the number of households leaving the sector and level of new development. Taking transfer lettings by households without reasonable preference out of the allocations system is likely to

²¹ DCLG, analysis of CORE lettings data

²² DCLG, HSSA and CORE

raise mobility within the social sector, but by how much is highly uncertain. If the number of lettings to existing tenants returned to 2003 levels – equivalent to a rise in the share of lettings to existing tenants of 5 percentage points, to 35 per cent of total lettings – then this would deliver an additional 29,000 moves per annum. This figure is merely illustrative however; there is little evidence of the likely impact of taking existing tenants out of the allocation framework.

In practice, any increase in mobility within the sector is likely to take a number of years to manifest itself, beginning from the policy implementation date in 2012. For simplicity it is assumed that the rise in lettings occurs steadily over five years and that current lettings trends persist. Table 3, below, shows how many more lettings to existing social tenants might take place each year in the scenario described above and with alternative mobility increases of either 2.5 or 10 percentage points over current levels. On the basis of current lettings patterns, two thirds of the additional moves will be made by tenants of Registered Providers of housing.

Table 3: Scenarios for numbers of additional lettings to existing social tenants

Scenario	2012	2013	2014	2015	2016 onwards
High (10pp)	11,000	23,000	36,000	49,000	64,000
Central (5pp)	6,000	11,000	17,000	23,000	29,000
Low (2.5pp)	3,000	6,000	8,000	11,000	14,000

Social landlords may see costs rise as a result of making more lettings, due to the administration involved in arranging moves and potentially from longer times when properties are void and rental incomes are not received. The range of additional moves set out above is used to estimate potential costs, assuming that each move requires half a days processing time by clerical staff and results in a weeks rental loss. Rents for local authority and housing association stock are taken to be equal to their England averages.²³ Table 4, below shows how much this might cost social landlords over a 30 year period, in present value terms.²⁴

Table 4: Scenarios for admin and void costs to social landlords from extra lettings, £m

	Mobility scenario		
	High (10pp)	Central (5pp)	Low (2.5pp)
To local authority landlords	£61	£28	£14
To Registered Providers of housing	£133	£61	£29
<i>Total cost to all social landlords</i>	<i>£194</i>	<i>£90</i>	<i>£43</i>

This amounts to an average annual cost of around £1,300 for each of the 1,500 Registered Providers of housing²⁵ and £2,900 per local authority. The equivalent annual net cost to Registered Providers of housing implied by the central scenario is £740,000 (£350,000 to £1.6m in the low and high mobility scenarios). In all cases it will be left to the discretion of landlords as to whether to prioritise more lettings to existing tenants.

Benefits

As with costs, it is difficult to provide firm estimates of the benefits which are likely to accrue from the preferred option for changing allocations legislation. The way social landlords respond to the new flexibilities is uncertain. Illustrations of the scale of likely benefits are provided using the same scenarios described above.

There are likely to be administrative savings to local authorities that adopt closed waiting lists, owing to it being simpler and less onerous to manage smaller waiting lists. As above, we

²³ Details are provided in the common assumptions section, below.

²⁴ Discounted in line with HM Treasury Green Book appraisal guidance

²⁵ Tang C. (2010) *Trends in Housing Association Stock*, Cambridge Centre for Housing and Planning Research, University of Cambridge

consider the implication of 25 per cent, 50 per cent or 75 per cent of local authorities revising their waiting list policies. It is assumed that authorities undertake regular reviews of their waiting lists every two years in order to verify details etc. Internal estimates, based on the cost of four weeks' clerical and management time, suggest these reviews could cost around £11,000 to conduct. Local authorities could conceivably make savings of between 10-50 per cent, equivalent to £1,100 to £5,700 per authority, per review. Table 5 shows the total savings that could result from more efficient management of waiting lists by local authorities, over a 30 year period.

Table 5: Scenarios for savings from more efficient management of waiting lists

Benefits, £m	Scenario		
	Low take up (25%)	Central (50%)	High take up (75%)
More efficient management of waiting lists – to local authorities that adapt policies and procedures	£1	£6	£16

Although local authorities are not required to provide Housing Options advice to persons that do not qualify to join the waiting list, we recognise that many already provide this service and that others are likely to adopt this approach as standard if they move to more restricted waiting lists. Local authorities that decide to adopt closed waiting lists and are able to process housing applicants more efficiently (e.g. by dispensing Housing Options advice rather than registering them) could benefit from cost reductions. If a quarter of an hour's time was saved in each case and 60 per cent (50% - 70%) of approaches were dealt with in this way then the saving could amount to £4,500 per local authority (£3,800 - £5,400) per year, assuming the average number of households approaching local authorities is 1,300. Table 6 sets out potential total efficiency savings over 30 years (in present value terms), depending on how many local authorities revise their waiting list policies.

Table 6: Scenarios for efficiency savings in processing housing applicants

Benefits £m	Scenario		
	Low take up (25%)	Central (50%)	High take up (75%)
More efficient processing of housing applications - to local authorities that adapt policies and procedures	£7	£17	£30

Providing the freedom for local authorities to amend waiting list policies could have another important, non-monetised benefit, in that it may give rise to the adoption of clearer, more easily understood systems for allocating social housing. As well as reducing the size of waiting lists, placing new restrictions on who qualifies for social housing, together with the introduction of more flexible tenancies should lead to a wholesale change in public perception of the purpose of social housing, with growing recognition that it best provides households in need with temporary support to get back on their feet, rather than as an entitlement for life.

Some authorities may decide to restrict their qualification criteria to those who have a reasonable expectation of being allocated social housing. Where they do this, and communicate, decisions on qualification at an early stage, this is likely to avoid creating unrealistic expectations amongst those who have little chance of accessing social housing and encourage them to do more to explore other options in the housing market and reduce dependence on the state. Allocation policies which are targeted in this way are more likely to be understood by local residents, which should help to address public perceptions that allocations systems are unfair.

As described above, the proposal is likely to have a relatively minor impact on the types of households that receive access to social housing. However, to the extent that moving to closed waiting lists does alter the mix of household types receiving lettings, it is possible this might

benefit households in Reasonable Preference groups and with lower incomes. Lower income households in housing need are likely to be able to access social housing sooner than otherwise. As well as progressive distributional impacts (assisting poorer households) this might lead to positive externalities since poor housing outcomes such as overcrowding have been linked with adverse physical and mental health impacts, which could impose costs on the NHS, and adverse effects on educational and labour market performance.

Increasing mobility within the social sector by taking most transfer lettings out of the allocations system is likely to benefit existing social tenants, many of whom may find their landlords more willing to prioritise their moves. This could have some positive externalities in terms of increasing the number of tenants able to take up paid employment and to find better jobs, which can be of substantial benefit to the public purse by reducing benefit expenditure and increasing taxation revenues as well as benefiting households themselves.²⁶ Although at present relatively few tenants move within the social sector for work related reasons²⁷ and research has found that mobility is not the main barrier to work for social tenants,²⁸ the number of social tenants entering paid work (or getting better jobs) could rise over time if social housing is increasingly seen as a springboard into work.

Although enabling landlords to make more lettings to existing tenants according to local circumstances might impose costs on landlords, it might also allow them to manage their stock of properties more efficiently. For example, more landlords might choose to offer dwellings that become vacant to under-occupying tenants (those living in properties with more bedrooms than the size of their household implies is necessary) in order to instigate downsize moves and free-up larger properties for families – either those living in overcrowded conditions or awaiting a move into social housing from temporary accommodation or the private rented sector. In such circumstances there might be benefits to larger households outside the social sector as well as to existing tenants (although this would come at the cost of delaying entry of smaller households to the social sector).

Housing outcomes could improve if powers are used to achieve objectives such as this e.g. reductions in overcrowding and households living in unsuitable properties. For example, if half the additional moves by existing tenants freed-up larger properties and half of these were allocated to overcrowded households then the change could reduce the number of households living in overcrowded conditions by an average of over 6,000 per year (190,000 over 30 years). In the low and high mobility scenarios there could be a reduction of 90,000 or 410,000 in overcrowded households.

The cost to taxpayers of supporting low income households with housing costs via the Housing Benefit system could also be reduced if this was the case, since it is more costly to accommodate larger households in the private than social sector. Over 30 years the reduction in housing benefit expenditure could total £76m. It is estimated this might range between £36m and £163m depending on the number of additional transfer lettings approved for stock management purposes. These estimates assume that one half of the extra moves taking place within the social sector are downsize moves that would not otherwise have been given sufficient priority by social landlords. Further, it is assumed that 89 per cent of downsizing households move from properties with three bedrooms to properties with two bedrooms and the remaining 11 per cent of households downsize from four bed to three bed dwellings.²⁹ When larger properties become available as a result of these moves, it is assumed that:

²⁶ DWP (2010) *The Department for Work and Pensions Social Cost Benefit Analysis Framework: Methodologies for estimating and incorporating the wider economic and social impacts of employment in cost-benefit analyses of employment programmes*, <http://research.dwp.gov.uk/asd/asd5/WP86.pdf>

²⁷ Only 1% of recently moved social rented households report change of job or wanting to be nearer to their job as the main reason for moving. DCLG, Survey of English Housing 2007-08

²⁸ Fletcher et al (2008), *Social housing and worklessness: qualitative research findings*, Department for Work and Pensions Research Report no. 521

²⁹ Based on analysis of data on under-occupation in the social rented sector by property size and household bedroom requirements. DCLG, Survey of English Housing, 3 year average 2005-06 to 2008-09.

- i. 50 per cent are allocated to households on the waiting list that are living in equal sized properties elsewhere
- ii. 10 per cent are allocated to overcrowded households on the waiting list; and
- iii. 40 per cent are allocated to existing social tenants living in overcrowded conditions.

The COntinuous REcording (CORE) lettings data are used as the basis for assuming that 50 per cent of households moving into the social rented sector would otherwise have resided in private rented or temporary accommodation. Assumed rents for properties of different sizes are given in the common assumptions appendix.

Summary

The estimates presented above are combined into three scenarios that are used to assess the overall impact of policy option 1B. The central scenario gives the level of net benefits considered most likely to result from relaxing waiting list rules and taking transfer lettings out of the allocations system. The advantageous and disadvantageous scenarios form viable estimates of the maximum and minimum level of net benefits likely to result from these changes.

Table 7 below summarises the monetary costs and benefits that might follow from removing the requirement upon local authorities to maintain open waiting lists. All 326 local authorities are expected to incur a one-off cost from familiarising themselves with the new arrangements, at a cost of between £290,000 in the advantageous scenario and £1.2m in the disadvantageous scenario (central case £770,000).

Those authorities that decide to adapt their policies and procedures will also face costs; these could amount to as little as £400,000 or as much as £3.7m, depending on how many local authorities adapt their waiting list policies and how much staff time is involved. The disadvantageous scenario assumes that relatively few local authorities (25%) respond to the new freedoms but that doing so costs £16,000 in staff time for each authority, giving a total cost of £1.2m. Coincidentally, adaptation costs are also £1.2m in the advantageous scenario where 75 per cent of local authorities take advantage of the new freedom to determine who qualifies to be considered for social housing but this costs just £5,300 per authority. In the central scenario (where 50 per cent of local authorities adapt waiting list policies and procedures at a cost of £10,700 each) costs might be £1.6m.

Local authorities that adapt their waiting list policies are likely to be able to realise efficiency savings when managing waiting lists and processing applications for housing. Together these benefits might range between £8m and £45m over a 30 year period, depending on how many local authorities realise savings by taking-up the freedoms.

In the central scenario the changes to waiting lists might lead to net benefits of £21m; these could range from £5m to £44m. Net monetised benefits are positive in all scenarios. In addition to these monetised benefits there are likely to be positive social impacts from the introduction of clearer, more easily understood frameworks for allocating social housing. Impacts on households accessing social housing are likely to be muted but there could be a slight distributional benefit because closed waiting lists might favour lower income or more vulnerable households waiting to access social housing.

Table 7: Costs and benefits from introducing greater freedoms to manage waiting lists

£,m	Scenario		
	Disadvantageous (Low take-up, high familiarisation cost)	Central	Advantageous (High take-up, low familiarisation cost)
Costs (transitional)			
'Familiarisation' with policy (to all 326 local authorities)	£1.2	£0.8	£0.3
Adapting waiting list policies (to local authorities that do so)	£1.2	£1.6	£1.2
<i>Total one off costs</i>	<i>£2.5</i>	<i>£2.4</i>	<i>£1.5</i>
Benefits (ongoing)			
More efficient query processing (to local authorities that adapt policies)	£7	£17	£30
More efficient reviews of waiting lists (to local authorities that adapt policies)	£1	£6	£16
<i>Total ongoing benefits</i>	<i>£8</i>	<i>£23</i>	<i>£45</i>
Net impact (Benefits - Costs)			
From waiting list changes	£5	£21	£44

The second strand of the policy option, increasing the number of transfer lettings, could have significant costs for landlords in the form of additional administration and foregone rental income. Table 8, below, sets out the totals over a 30 year period. The equivalent annual net cost to Registered Providers of housing implied by the central scenario is £740,000 (£350,000 to £1.6m).

The only benefit of removing transfer lettings from the allocations framework which has been monetised is the potential reduction in central government expenditure on housing benefit. These exchequer savings could come about if social landlords use transfer lettings to support downsize moves by social tenants that are under-occupying properties. Table 8 presents three estimates of potential savings, which rise in line with the number of additional transfer lettings taking place.

Table 8 also sets out estimates of the overall monetised impact of the policy option (taking into account the costs and benefits from changes to waiting list rules and the framework for allocating transfer lettings). In the central scenario it is estimated that reforms would deliver net benefits valued at £7m over the appraisal period. In a disadvantageous scenario, costs might exceed benefits by £25m because efficiencies in waiting list management and savings in housing benefit expenditure could be insufficient to compensate for the additional cost to landlords associated with more lettings. In an advantageous scenario though, net monetised benefits could total £37m.

Table 8: Costs from taking transfer lettings out of allocations system

£,m	Scenario		
	Disadvantageous	Central	Advantageous
Costs (ongoing)			
Admin and void costs from increased number of lettings (to local authority landlords that prioritise transfers)	£61	£28	£14
Admin and void costs from increased number of lettings (to Registered Providers that prioritise transfers)	£133	£61	£29
<i>Total ongoing costs</i>	<i>£194</i>	<i>£90</i>	<i>£43</i>
Benefits (ongoing)			
Housing Benefit savings from reducing under-occupation	£163	£76	£36
Net Present Value (Benefits - Costs) From transfer lettings	-£30	-£14	-£7
Overall Net Present Value of policy changes (Benefits - Costs) From waiting list reforms and transfer lettings	-£25	£7	£37

As well as the monetised impacts of the policy, increasing the number of transfer lettings would bring benefits to existing social tenants though, potentially significantly increasing mobility within the sector. As the change will help enable landlords to focus on making better use of their stock – for example by using transfers as a means to create chains of lettings which address under-occupation and overcrowding or free up accommodation adapted to the needs of disabled people – then there could also be reductions in housing needs. Our assessment is that these non-monetised benefits will outweigh the costs to landlords associated with making a greater number of lettings to social tenants. Social landlords will of course be well placed to assess the merits of transfer lettings at a local level, taking account of individual circumstances and local priorities.

Summary: Analysis and Evidence

Tenure Policy - Option 2B

Description: Give social landlords the freedom to set the terms tenancies and succession rights for new social tenants

Price Base Year 2010	PV Base Year 2010	Time Period Years 30	Net Benefit (Present Value (PV)) (£m)		
			Low: -£262m	High: -£57m	Best Estimate: -£123m

COSTS (£m)	Total Transition (Constant Price) Years	Average Annual (excl. Transition) (Constant Price)	Total Cost (Present Value)
Low	£1.9	£3.8	£57m
High	£3.7	£17.2	£262m
Best Estimate	£2.6	£8.2	£123m

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

Local housing authorities, local authority landlords and private Registered Providers of housing could incur costs of £13m (range £10m to £19m) from developing, publishing and maintaining new tenancy policies. Social landlords might incur administrative costs of £54m (£35 - £74m) when reviewing flexible tenancies, £27m (£4m - £96m) when providing households leaving the sector with advice and support, and £24m (£7m - £61m) as a result of additional void periods. Court proceedings related to tenants who choose not to vacate dwellings might cost social landlords £5m (£1m - £12m).

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

There may be some costs for households who are not able to remain in social housing e.g. from paying higher rents on private sector accommodation. On average over the 30 year appraisal period, between 8,000 and 61,000 households might move out the social sector following a tenancy review each year (central scenario: 26,000) and 2,000 might not succeed to a tenancy they otherwise would have done.

BENEFITS (£m)	Total Transition (Constant Price) Years	Average Annual (excl. Transition) (Constant Price)	Total Benefit (Present Value)
Low	Not quantified	Not quantified	Not quantified
High	Not quantified	Not quantified	Not quantified
Best Estimate	Not quantified	Not quantified	Not quantified

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

It has not been possible to provide estimates of the monetary benefits of reform to tenure, although we anticipate that these may be significant in financial terms as well as delivering better housing outcomes, improved fairness and greater mobility, as set out below.

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

Tenure reform will provide opportunities for landlords to provide new work incentives for those with flexible tenancies and could lead to a shift in tenant behaviour as attitudes towards the role of social housing change, e.g. reducing culture of dependency on the state. The benefits from encouraging more social tenants into employment could be very significant. For example, if as few as 6,000-8,000 additional social tenants entered employment for a single year of the period covered by this analysis the benefits of introducing flexible tenancies could exceed the monetised costs (giving a positive net present value in the central scenario).

Reforms to tenure in the social sector will give social landlords the ability to support more needy households at the expense of those that no longer require support, potentially delivering significant savings in the housing benefit bill. Over the next 30 years the use of flexible tenancies could create between 160,000 and 1.35 million additional lettings as a result of the use of flexible tenancies (central scenario: 530,000). Increasing the availability of social housing and giving landlords greater freedoms to determine how it is put to use is likely to lead to fairer outcomes and could have positive distributional impacts. Social landlords will have the flexibility to promote fairness; to ensure that help and support are focussed on those who need it most when they need it most; and to build strong and cohesive communities.

Key assumptions/sensitivities/risks

Discount rate (%)

3.5%

Scenarios are used to illustrate a range of likely impacts from tenure reforms since these are dependent on the unknown responses of local authorities, private Registered Providers and social tenants. The key assumptions underpinning the results presented here are what proportion of new general needs tenancies are granted on a flexible basis (assumed 36% / 49% / 60% of lettings), the average length of these (taken to be 6 / 5 / 4 years) and how frequently these are extended following review (assumed 90% / 80% / 70% of the time). As with any devolution of power there is a risk that, on occasion, the use of tenure flexibilities might have unintended consequences e.g. providing less security to households that would benefit from stability, or reducing incentives for workless households to improve their circumstances.

Impact on admin burden (AB) (£m):

New AB: £0

AB savings: £0

Net: £0

Impact on policy cost savings (£m):

Policy cost savings:

In scope

Yes/No

Evidence Base (for summary sheets) – Tenure Policy

Description of policy options

Summary of key points:

- The current statutory and regulatory framework requires social landlords to grant 'life-time' tenancies in most cases – irrespective of how households' circumstances might change in the future.
- Some social tenancies can be inherited by family members (other than partner/spouse), who may be in no housing need. Landlords have little control over this process.
- Current provisions fail to ensure that the support social housing provides to vulnerable households is sufficiently focused on those people who need it most.
- It is unfair – both on the most vulnerable households and taxpayers who subsidise its provision – that the current tenancy and succession arrangements prevent landlords from addressing as many people's housing needs as they could.
- The preferred option would increase the freedom social landlords have to determine the sort of tenancy they grant to *new* tenants, allowing them to vary conditions such as tenancy length (subject to a statutory minimum). Existing social tenants would be unaffected.
- Other options included requiring that all new tenancies, or those to particular types of household, are subject to limited terms. These options were rejected on the grounds they fail to give landlords sufficient freedom to manage housing needs in line with local circumstances.

Background on tenancies in social housing

The current statutory framework for providing tenancies in social housing requires social landlords to grant, in the vast majority of cases, life-time tenancies that can take no account of how individuals' and households' circumstances might change in the future. In some instances those tenancies can be inherited by family members, who may be in no housing need.

Almost half of tenants allocated general needs lettings in 2008-09 received secure (19%) or assured (31%) tenancy agreements. The other half of general needs lettings were made on a starter/introductory basis, i.e. tenancies with an initial term of 6 to 12 months that then convert to secure/assured tenancies on the satisfactory completion of this probationary period. In supported housing the use of assured shorthold tenancies (usually with a fixed term of only six months) or licence agreements is widespread.

Table 9: Analysis of lettings by type of tenancy agreement, 2008-09

	Total	General	Supported
Secure	15.6%	18.8%	8.2%
Assured	28.3%	30.5%	23.1%
Starter/Introductory	37.9%	49.8%	10.3%
Assured Shorthold/License/Other	18.2%	0.9%	58.5%

2008-09 lettings (including about a third transfers), CORE

Table 9 shows that 99 per cent of general needs lets were provided on a secure or assured basis in 2008-09 either directly or following an introductory or starter tenancy period.

It is estimated that approximately 14,400 people a year succeed to a social tenancy previously held by someone other than their partner or spouse (typically a parent or other family member).³⁰ In total there may be 220,000 households in the social rented sector who have succeeded to a tenancy held by someone other than their partner/spouse (60 per cent of the total number estimated to have succeeded). Landlords have little control over the process of succession, which means that under current succession arrangements they are not empowered to determine who occupies their stock of social housing.

Problem under consideration

The existing rules governing tenancies lead social landlords to grant most tenancies for the lifetime of the tenants and in many cases these can be succeeded by members of the family, also as a lifetime tenancy. These provisions fail to ensure that the support social housing provides to vulnerable households is sufficiently focused on those people who need it most. Social landlords are denied the flexibilities and freedoms to develop approaches which respond to local circumstances and which make best use of housing stock to reduce housing needs.

Giving lifetime tenancies to households that may only experience temporary need contributes to the inequitable situation that sees 258,000 social tenants forced to live in overcrowded conditions due to lack of suitably sized properties whilst 430,000 households occupy social housing with two or more bedrooms to spare (there are regional differences – in particular the number of overcrowded households exceeds the number of under occupiers in London).³¹

The 2006 Smith Institute *Rethinking Social Housing* report questioned why a temporary lack of suitable housing results in a legal right to a subsidised home for life. The report recommended phasing out assured and secure tenancies to create a wider single rented tenancy which does not necessarily assume a tenancy for life'.³²

Providing all social tenancies for life also means Government spends more on Housing Benefit to support low income households since more are forced to reside in the private rented sector or in temporary accommodation, where rents are higher than for social rented accommodation. Reducing the need for temporary accommodation could also bring about savings for local authorities who meet the costs of managing and maintaining it.

The 2007 review of social housing by John Hills explored the future role of social housing and emphasised the need to consider a "more varied menu" for both prospective and existing tenants, including the possibility of regular review every few years to run through whether someone's circumstances had changed to allow them to take up a different part of the offer. Some of the ideas in this report are based on the notion of time limited support e.g. 'entitlement to fixed support (such as through vouchers) for a certain period, such as one to five years'.³³

Rationale for intervention

Social housing is in great demand and it is unfair – both on the most vulnerable households and taxpayers who subsidise its provision – that the current tenancy and succession arrangements prevent it from addressing as many people's housing needs as it could. It is right that social

³⁰ Survey of English Housing, 3 year average for 2005/06 to 2007/08

³¹ DCLG, English Housing Survey and Labour Force Survey 2008-09.

³² Smith Institute (2006) *Rethinking Social Housing*, p.82

³³ Hills John (2007) *Ends and Means: the future roles of social housing in England*, pp.156, 204

landlords should have the powers to manage their stock in line with local priorities, including by assisting households whose circumstances improve to leave the sector and facilitating downsize moves by those households that cease to require large sized properties.

Reform to tenancy and succession arrangements is warranted in order to free up stock for those in greater need. This could bring about positive externalities related to health and education outcomes, in addition to improving housing outcomes for the most vulnerable people.

Changes are needed to deliver better value for money for taxpayers too. Empowering local authorities to better target resources at households in need is an important step in ensuring that fair housing outcomes are secured in the most cost effective manner.

Government intervention is necessary as it is responsible for the legislation and national framework which provides for the types of tenancy which can be provided. Reform is required to provide greater freedoms for local authorities and housing associations to respond to local circumstances and the needs of individual households, promote clarity and fairness, and ensure that support focuses on the most vulnerable people in society.

Policy objectives

Existing tenants with secure and assured tenancies will be protected from any changes to their security or other rights, but social landlords will be granted freedom to offer more flexible tenancy arrangements to new tenants in the future.

Our objectives are to create a system in which social landlords have freedoms and flexibilities to manage their stock more effectively, in ways which meet local circumstances and the needs of individual households. Proposed new 'flexible tenancies' would strike an appropriate balance between security and flexibility.

The new policy has three broad aims. The first is to devolve power to social landlords so they can make decisions on the basis of local need and circumstances. The second aim is to move towards a system better focussed on need: social housing should provide protection and support for those who need it most for the period they are in need. Thirdly, to facilitate a change in the public perception of social housing so that it provides a springboard into work and self-sufficiency for households in need, rather than encouraging welfare dependency.

Policy options

Option 2A – Do nothing

This option was rejected as the current system does not provide social landlords with the freedom they need to best manage their stock in the interests of individual tenants and the local community.

Option 2B – Social landlords free to set the terms of new tenancies

The government's **preferred option** is to increase the freedom available to local authority landlords and housing associations, to determine the sort of tenancy they grant to new tenants. Landlords will have wide discretion and may decide to make no changes to current arrangements; they may continue to provide all new tenancies on a secure or assured basis, if they so choose.

Legislation will create a new type of tenancy for local authority landlords which they can decide to provide for some or all new tenants rather than a secure tenancy. That tenancy will be flexible, allowing landlords to provide a range of fixed tenancy periods – hence the name ‘flexible tenancy’. The Regulator’s existing Tenancy Standard will be relaxed so that all social landlords are able to exercise these new freedoms on the same basis.

The intention is for central government to set some broad parameters within which social landlords can use flexible tenancies, including a minimum fixed term period of two years in legislation. An upper limit is not envisaged – landlords would be free to set fixed terms of 10 years, 20 years or longer.

New flexible tenancies would provide a minimum right of succession on all new tenancies for spouses and partners, but give landlords the flexibility to grant whatever additional succession rights they choose. This option would also change succession rights for all new secure tenancies created in the future; secure tenancies will have the same succession rights as the new flexible tenancies.

Option 2C – Make some new social tenancies flexible

A more limited application of flexible tenancies to particular groups was considered. **This option was rejected** as it fails to give adequate freedom to social landlords to best tackle housing need in the light of local circumstances. For instance, granting flexible tenancies to all new entrants to the social sector aged under 25 would not permit the support needs of individual households to be taken into account. Restricting flexible tenancies to few, well defined groups of households would likely only have a limited impact in tackling the problems outlined above.

Option 2D – No new assured and secure tenancies

Preventing social landlords granting assured and secure tenancies in the future was also considered. **This option was rejected** as it again fails to give adequate freedom to social landlords to make decisions in the light of local needs and circumstances. For example it would be unduly burdensome on social landlords if they were required to provide fixed term tenancies to all new social tenants, even to those in need of long-term support, only to have to renew them again and again.

Costs and benefits

Baseline for appraisal

If unreformed, the framework governing tenancies for social housing is likely to keep contributing to ineffective use of the stock – in terms of addressing housing need. There is unlikely to be any change in the type of tenancies granted by social landlords unless action is taken. Almost all general needs lettings would probably continue to be made with assured or secure tenancies (or starter/introductory tenancies that subsequently convert to these). Secure tenancies would continue to confer succession rights on people other than the partner/spouse of social tenants and the number of such successions might continue around current levels.

The Department for Work and Pensions will, however, make changes to the Housing Benefit system in future, following an announcement at the June 2010 Emergency Budget.³⁴ These will influence housing outcomes whether or not any tenure reform is made. For instance, restricting

³⁴ HM Treasury, http://www.hm-treasury.gov.uk/junebudget_easyread.htm

Housing Benefit entitlement for working age households in the social rented sector to appropriately sized homes means that those occupying a larger property than their household size warrants will have a greater incentive to downsize – freeing up dwellings for overcrowded households.

Changes following from preferred option

Scenarios

It is difficult to estimate the impacts that will come about from landlords implementing the preferred option because this would occur on a local basis and at landlords' discretion. A number of landlords are interested in providing shorter-term tenancies to some new tenants and are likely to respond positively to this new freedom by tailoring tenancy types more closely to the circumstances of individual households. There are a number of uncertainties around the impacts that would follow from the policy though. For example, how many social landlords might come within this group, how often tenancies would be renewed at the end of a fixed term and how frequently households might be asked to move on as a result.

To illustrate a range of impacts that could result from the introduction of the preferred option, three scenarios are presented below. These reflect a range of possibilities around the effects of the preferred option and exemplify the costs and benefits that might follow. They are not forecasts; there is too little evidence on how landlord and tenants will respond to the new freedoms for this. Significant variation in outcomes is possible at the local level and there may be differences between the local authority and housing association sectors that have not been accounted for here.

Legislation to deliver tenure reform changes is unlikely to come into force before autumn 2011 and it will take time for social landlords to respond to the new freedoms. For modelling purposes there are assumed to be no changes to tenancy types prior to 2012 (whereas in practice the some tenancies for Affordable Rented dwellings may be made on a flexible basis in advance of this).

The scale of impacts from reforming social tenancies depends on the number of social lettings taking place in future years. Lettings of *supported* housing, which is used to assist particularly vulnerable households, are unlikely to be affected by the legislation.³⁵ Neither will lettings to existing social tenants, whose 'lifetime' tenancy rights will be protected if they move to a new tenancy within the social sector. The legislation and parallel regulatory change will however enable, respectively, local authority landlords to offer flexible tenancies in addition to secure tenancies and private Registered Providers of social housing to offer assured shorthold tenancies for fixed terms, in respect of general needs lettings.

In 2008-09 the number of such lettings, that is, lettings of dwellings without fixed support to new entrants to the social sector, was 171,000, up slightly from 163,000 the preceding year.³⁶ For the purpose of analysing the impacts of introducing a 'flexible' tenancy standard, and in the absence of information to the contrary, new general needs lettings are assumed to remain at 170,000 per annum in future years unless reforms are made.

One reform that *will* influence the number of social dwellings becoming available to let will be changing succession rights enjoyed by new local authority tenants. The reform will provide a minimum right of succession on all new tenancies for spouses and partners, but give landlords the flexibility to grant whatever additional succession rights they choose. It would affect households receiving new secure tenancies and those local authority tenants given flexible

³⁵ Assured shorthold tenancies are already the norm for supported housing

³⁶ Communities and Local Government, Continuous Recording of Lettings (CORE)

tenancies and could mean that, in future, fewer persons who are not the partner or spouse of the original tenant will succeed to these dwellings.

It is assumed that the current level of successions by non-partners or spouses – estimated at around 14,400 a year³⁷ – occurs as a result of all local authority tenants having such rights. If the size of the local authority sector remains constant (at around 1.9 million households³⁸) then if the percentage of local authority tenants with such rights reduces in future there might be a proportionate reduction in the number of this type of successions. This will depend on the tenancy policies adopted by social landlords. In the absence of information on this it is assumed, for simplicity, that 50 per cent of future local authority lettings will provide succession rights that are restricted to partners/spouses.

It is unlikely that reducing the number of tenancies with succession rights would immediately lead to more social dwellings being available for letting by the landlord though. Successions are more likely to occur when a greater amount of time has elapsed since the tenancy was initially granted so it is assumed that no successions would take place to local authority dwellings let within 10 years. On this basis the reform might lead to an extra 68,000 social lettings taking place over the next 30 years (to 2040), an average of 2,300 per year. Impacts are likely to be limited until towards the end of the appraisal period.

Less than 1 per cent of households getting tenancies in 2008-09 were granted anything other than a 'lifetime' tenancy: either secure or assured tenancies, or introductory/starter tenancies that convert into secure/assured tenancies after an initial 12 month period (ref. Table 9, above). Giving social landlords greater freedom to determine the length of tenancies thus has considerable scope to lead to shorter tenancies being granted. How often landlords decide to grant 'flexible' tenancies (in place of other tenancy types) will depend on how many landlords revise their lettings policies following the introduction of the legislation and how quickly this occurs.

- The scenarios below reflect the impact of 60 per cent, 70 per cent or 80 per cent of landlords using flexible tenancies.
- The time until these percentages of landlords revise lettings policies is taken to range between three and four years.

The frequency with which landlords use flexible tenancies will depend on what circumstances shorter tenancies are deemed appropriate at a local level. It is unlikely that flexible tenancies would be granted to households with ongoing or high support needs, such as elderly tenants (who account for 6 per cent of general needs lettings³⁹). Other types of households that might not be granted flexible tenancies might include those that are unable to work due as a result of sickness, disability or being retired. In total these groups accounted for one quarter of all general needs lettings in 2008-09.⁴⁰

Independent research into the characteristics of social tenants has previously found that around a quarter of new general needs lettings go to social tenants whose need for a secure home is likely to be long-term and for the foreseeable future.⁴¹ Flexible tenancies might be granted to many other new tenants though, since most were found to have housing needs that might only be short to medium term. Researchers noted it was impossible to determine whether this would actually be the case in advance.

³⁷ DCLG, Survey of English Housing, 3 year average for 2005-06 to 2007-08

³⁸ DCLG, English Housing Survey 2008-09

³⁹ Communities and Local Government, Continuous Recording of Lettings (CORE) 2008-09

⁴⁰ Communities and Local Government, CORE 2008-09; Live Table 752

⁴¹ Centre for Housing and Planning Research, University of Cambridge report for Communities and Local Government (2007) *A typology of social housing lettings using CORE*

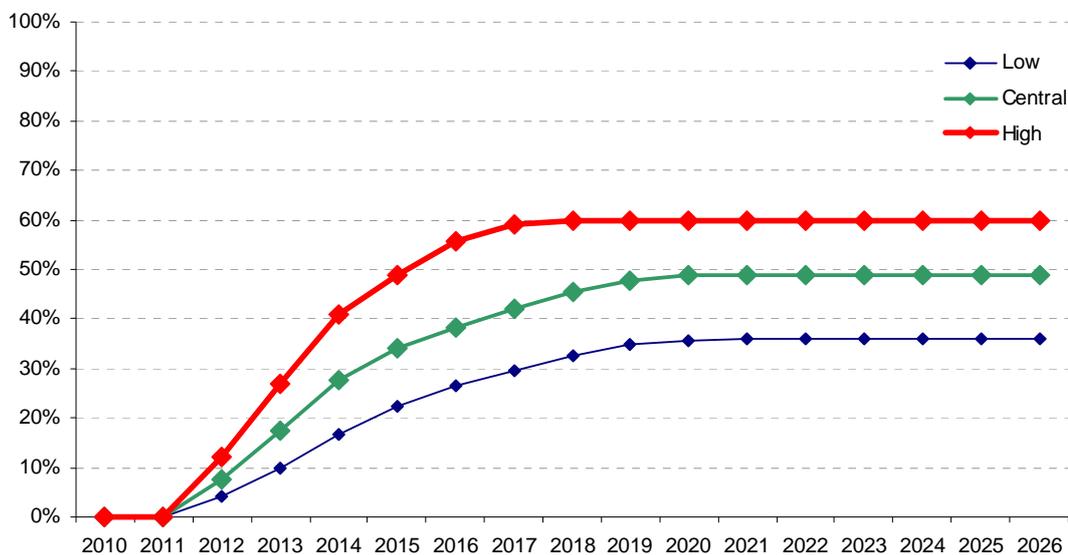
- The scenarios below assume that once landlords revise their lettings policies, they begin granting flexible tenancies in respect of 20 per cent, 30 per cent or 40 per cent of lettings.
- Over five or six years the percentage of flexible tenancies granted by these landlords is assumed to rise gradually to 55 per cent, 65 per cent or 75 per cent of all their general needs lettings.

These three sets of assumptions imply that no flexible tenancies will be granted prior to 2012 and that the proportion of new general needs lettings made using these will remain quite small for some time thereafter.

- Increasing use will be made of flexible tenancy standards over time in each of scenarios, until by 2021, 36 per cent, 49 per cent or 60 per cent of lettings are made using these.

The scenarios are illustrated by Chart 2, below.

Chart 2: Scenarios for % of new general needs lettings made as flexible tenancies



Landlords will be free to set the length of flexible tenancies they grant, subject to a minimum term (of two years) prescribed in legislation and any longer period set out in the regulator’s Tenancy Standard following consultation, so there is likely to be considerable variation in the duration of flexible tenancies between landlords. It is likely that most landlords will grant tenancies for longer periods of time than the statutory minimum – both to ensure the housing needs of new tenants are met for a reasonable period and to avoid incurring costs from reviewing tenancies very frequently. There is no intention to set a statutory maximum fixed term and landlords would be free to set a term of 10 years, 20 years or longer.

- For illustrative purposes we assume the average length of *flexible* tenancies will be four, five or six years.

Even within this narrow range of modelling assumptions there could be a wide variation in the length of flexible tenancies granted by social landlords, with many granting tenancies for 10 years or more. In addition a large proportion of new social tenants would continue to receive ‘lifetime’ tenancies.

There is a great deal of uncertainty around how frequently flexible tenancies will be renewed when they come to an end. This is likely to depend on a number of factors, including the:

- i. criteria social landlords adopt for their lettings policies
- ii. circumstances of tenants that are granted flexible tenancies and the way these evolve over the period before reviews.

One of the grounds that might lead landlords to decide not to renew a flexible tenancy could be a large and sustained increase in income. Other grounds could include household composition, e.g. number of inhabitants and their age, and suitability of accommodation. Factors that could be taken into account in renewing a flexible tenancy might include age of occupiers, having dependent children, and health of the tenant.

Most households have low incomes at the time they enter the social sector. In 2008-09 for example, 59 per cent of new entrants had net household incomes of under £10,000 and another 33 per cent had incomes of between £10,000 and £20,000.⁴² Longitudinal analysis carried out by the Department for Work and Pensions finds that only 16 per cent of individuals that experienced persistently low incomes⁴³ between 1991 and 2008 went on to have incomes of more than 60 per cent of median incomes for at least two years running.⁴⁴ This suggests relatively few low income social tenants might see improvements in income that are sufficient to, for example, access low cost home ownership. More low income individuals went on to exceed this income threshold for at least a single year though (32%). And by 2008, 45 per cent of individuals that were in the bottom income quintile in 2000 had spent five or more years in a quintile above this. Comparable international experience is limited but a recent initiative in Australia suggests that quite a high proportion of tenants might have flexible tenancies renewed.⁴⁵

Over time it is likely that some social rented households living in large dwellings will get smaller as children leave the parental home. Landlords might decide not to renew flexible tenancies in the same property (though they might in a different one) in cases such as these if it meant the households had more bedrooms than they required (since the properties could otherwise be used to alleviate overcrowding). Single households without children are the most common type of household entering the social sector though (46 per cent of new entrants). Lone parents and couples with children, who make up the second and third largest groups of households entering the social sector (accounting for 25 per cent and 15 per cent of lettings respectively), are more likely to be affected by lettings criteria concerning household size.

- For the purposes of assessing impacts of flexible tenancies it is assumed that 90 per cent, 80 per cent or 70 per cent of flexible tenancies will be renewed at the end of their fixed term (either in the same dwelling or another social home).

Whilst the total number of social dwellings available for letting to households on the waiting list will increase only where a household moves out of social housing following review, moves within social housing are likely to increase the availability of larger properties as landlords seek to make better use of stock.

For clarity the assumptions employed by the three scenarios are summarised below, in Table 10.

⁴² Communities and Local Government, Continuous Recording of Lettings (CORE) 2008-09

⁴³ Defined as incomes below 60% of the median equivalised household income for three or more consecutive years

⁴⁴ Department for Work and Pensions (2009) *Low income dynamics 1991-2008 Great Britain*

⁴⁵ Dockery et al (2008) *The relationship between public housing wait lists, public housing tenure and labour market outcomes*, for Australian Housing and Urban Research Institute, National Research Venture 1: Research Report vol 9.

Table 10: Summary of assumptions used for scenario analysis

Scenario	% new social tenancies that are flexible	Average length of <i>flexible</i> tenancies	% flexible tenancies renewed
Low	36%	6 years	90%
Central	49%	5 years	80%
High	60%	4 years	70%

Impacts of tenure reform

The outcomes likely to follow from each of the scenarios are set out below. The first flexible tenancies are likely to be granted in 2012. Table 11 sets out the number of flexible tenancies made in each of the ten years following this, and the total over the 30 years from now.

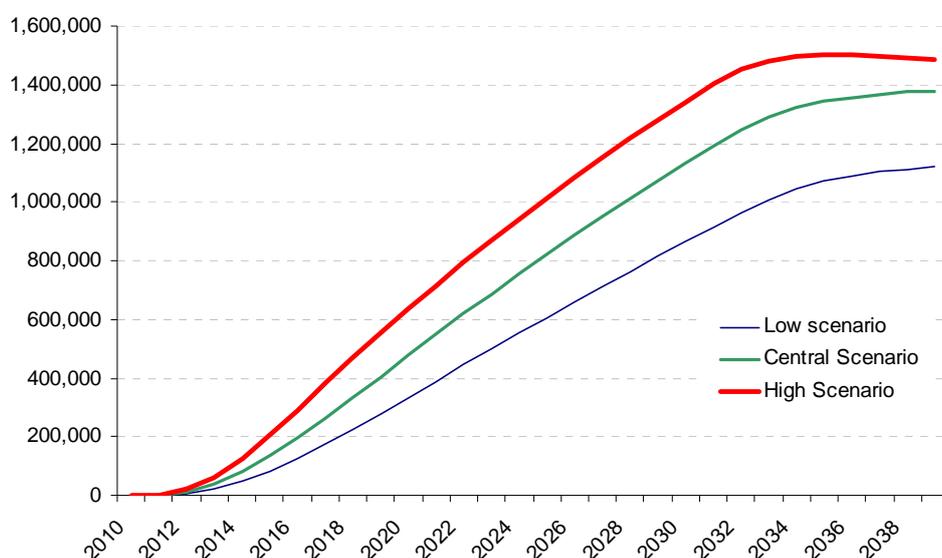
Table 11: Scenarios for number of flexible tenancies granted, 2012-2021

Scenario	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	...	Total
Low	7,000	17,000	28,000	38,000	45,000	50,000	56,000	60,000	62,000	63,000	...	1,600,000
Central	13,000	30,000	47,000	58,000	65,000	73,000	80,000	86,000	89,000	90,000	...	2,400,000
High	20,000	46,000	70,000	83,000	98,000	108,000	115,000	117,000	122,000	128,000	...	3,500,000

From the figures it can be seen that the number of social lettings made using flexible tenancies would rise quite quickly over time, from a low starting point. In the low scenario, usage of flexible tenancies is fairly stable from 2020 onwards; the peak number of flexible tenancies granted in this scenario is 67,000 per annum (in 2031). The increase in number of flexible tenancies granted in the central scenario also moderates quite quickly; the peak number granted is 106,000. In the high scenario, the number of flexible tenancies granted continues to rise for longer, until a maximum of 164,000 flexible tenancies are made in a single year. Over a 30 year period a total of 1.6 million flexible tenancies would be granted in the low scenario; 2.4 million in the central scenario and 3.5 million in the high scenario.

As one would expect given this increased use of flexible tenancies, the number of social rented households that have flexible tenancies would rise steadily over time in each of the scenarios. This is illustrated by Chart 3 below.

Chart 3: Scenarios for number of social rented households with flexible tenancies



The number of social tenants with flexible tenancies is expected to reach a relatively stable level by around 2035-2040, after which point the number of households receiving flexible tenancies will approximately equal the number leaving the social sector each year. If the size of the social sector remains constant, then 30 years from now the percentage of social tenants with flexible tenancies would rise to 29 per cent in the low scenario, 36 per cent in the central scenario or 39 per cent in the high scenario.⁴⁶

The number of tenancy reviews carried out by landlords will largely depend on the number of flexible tenancies that have been granted. Consequently few reviews would take place prior to 2020. In the low scenario, landlords would conduct 21,000 reviews of flexible tenancies within the next 10 years. In the central scenario around 71,000 tenancies would be reviewed, and in the high scenario landlords would carry out 154,000 tenancy reviews over the next 10 years. This equates to 7 per cent, 16 per cent and 23 per cent (respectively) of all flexible tenancies made over this timeframe.

Over a 30 year period the number of reviews undertaken by landlords in response to the policy would be 2.1 million in the low scenario, 3.1 million in the central scenario and 4.2 million in the high scenario. This amounts to conducting between 69,000 and 142,000 per year on average (103,000 in the central scenario). Each flexible tenancy will have been reviewed an average of 1.3 times in the low and central scenarios, and 1.2 times in the high scenario by the end of the appraisal period.

Under the scenarios set out above there will be no impact on the number of households moving out of the social rented sector until 2016 at the earliest, when, in the high scenario, 6,000 households would exit social rented accommodation following tenancy reviews. In the central scenario, reviews would lead to 3,000 households moving out of social housing in 2017 and in a low scenario, no social rented households would move as a result of tenancy reviews until 2018 when 700 would do so. Table 12 sets out how many households are expected to move out of the social rented sector after review in each of the three scenarios.

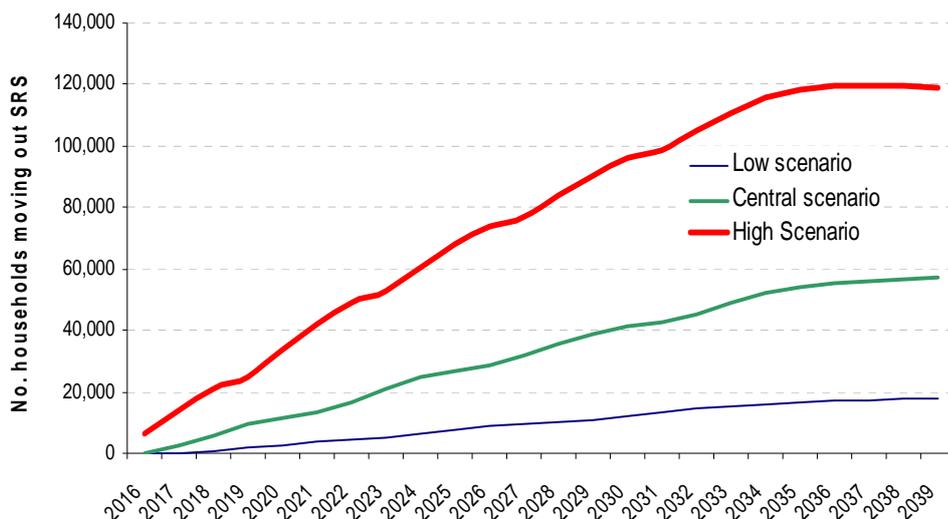
Table 12: Scenarios for number of households moving out of social sector following tenancy reviews

Scenario	Total number of moves		Average number of moves	
	Over first 10 years	Over 30 years	Over first 10 years	Over 30 years
Low	2,000	230,000	200	8,000
Central	18,000	770,000	1,800	26,000
High	66,000	1,820,000	6,600	61,000

In the short term the impacts of tenure reform on housing outcomes will be fairly limited but as Chart 4 illustrates, the number of moves out of the social rented sector will increase over time for each of the scenarios. The peak number of households exiting the social sector in a year, as a result of flexible tenancies being reviewed, will be 18,000 in the low scenario (in 2039) but on average over the period just 8,000 households would move each year. In the central scenario the highest number of annual moves out of social rented accommodation as a result of flexible tenancies would be 57,000 (also 2039) and the average number of moves would be 26,000 per annum. In the high scenario, reviews would likely lead to 120,000 households moving out of social rented sector in 2036, with 61,000 households exiting each year of the appraisal period on average. In relation to the overall number of households living in the social rented sector, this equates to between 0.2 per cent and 1.6 per cent of tenants moving out each year on average (0.7 per cent in the central scenario).

⁴⁶ Note that this estimate of the percentage of social tenants with flexible tenancies is lower than the percentage of new entrants receiving this type of tenancy (36% compared to 49% respectively, in the central scenario). This results from assuming that the number of lettings will remain fixed at the relatively low level of 170,000 each year, except for the effect of flexible tenancies, whereas in practice it will vary according to factors such as the age and income profile of existing social tenants.

Chart 4: Scenarios for number of households moving out of social sector following tenancy reviews

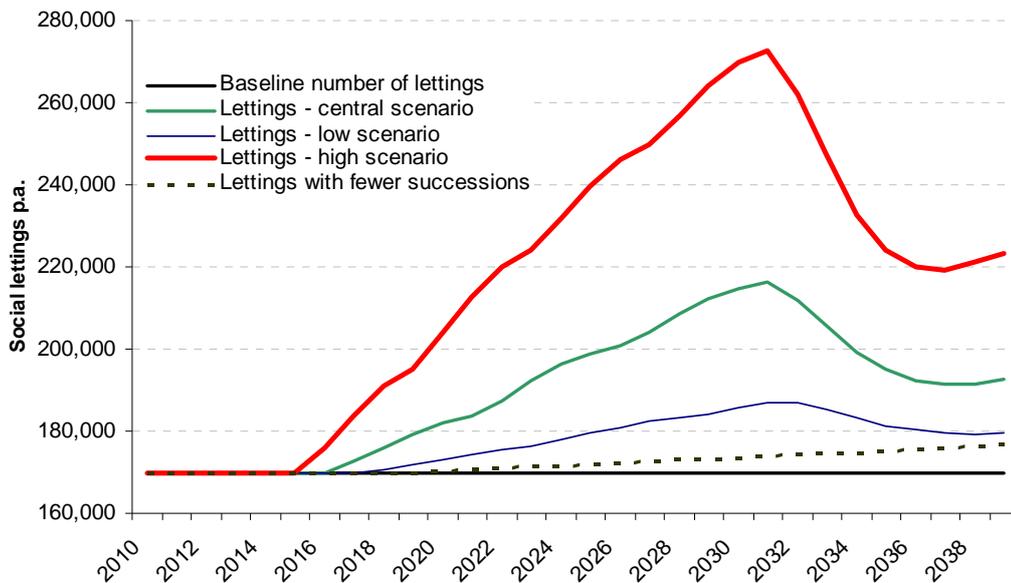


This greater ‘churn’ within the sector will generate additional social lettings, since dwellings vacated following a review of a flexible tenancy will be available for letting to new social tenants when they would otherwise have been occupied. Thus, one of the main effects of reforming tenure would be to bring forward the time at which social dwellings are available for re-letting. However, it is important to recognise that households who move out of the social sector following flexible tenancy reviews would anyway have vacated the dwelling at some point in the future. For example tenants may move into home ownership several years early as a result of a tenancy review.

Other things constant, this means that the number of additional social lettings in a given year will be greater if more tenancies are reviewed, but there will be fewer lettings if there have been more tenancy reviews in past years (since tenants will, on average, have resided within the sector for fewer years and be less likely to exit for reasons other than flexible tenancy review).

For illustrative purposes the average duration of stay in social housing is taken to be 20 years and assumed that in the absence of tenancy reviews, households would exit the social sector at this time. The implications are evident in Chart 5 below, which plots the number of social lettings that would take place under the three scenarios against the baseline lettings assumption of 170,000 lettings per year. This chart also illustrates the impact that reforming succession rules might have on lettings (excluding the impact of introducing flexible tenancies).

Chart 5: Scenarios for number of social lettings per annum



In all three scenarios the number of additional social lettings would rise every year from the date of the first reviews (2016-2018) until 2031. Beyond this year, there would always be more social lettings than the baseline but the number of additional lettings would not continue to rise forever because at some point in the future there would be fewer social tenants vacating their dwellings for other reasons (they would already have moved out following tenancy reviews).

Table 13 sets out the number of additional social lettings taking place from 2016 to 2025 along with the total number of extra lettings over a 30 year period.⁴⁷ On average there will be 5,000 more social lettings per year in the low scenario. In the central scenario there would be an average of 18,000 more lettings p.a. and in the high scenario the average number of additional lettings created by reforming tenure rules could be 45,000 per year. This represents an increase of 3 per cent, 10 per cent or 26 per cent over the baseline of 170,000 lettings a year.

Table 13: Scenarios for number of additional social lettings resulting from tenure reform

Scenario	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	...	Total
Low	0	0	1,000	2,000	3,000	4,000	4,000	5,000	6,000	7,000	...	160,000
Central	0	3,000	6,000	9,000	12,000	13,000	17,000	21,000	25,000	27,000	...	500,000
High	6,000	14,000	21,000	25,000	34,000	42,000	49,000	53,000	60,000	68,000	...	1,350,000

As with the impact on social tenants, the number of additional lettings brought about by the introduction of flexible tenancies is relatively low in the first years of the policy. Even over the next 10 years (to 2020) there would be an average of 200 extra social lettings per year in the low scenario though. In the central and high scenarios this would be 2,000 and 7,000 more lettings per annum respectively.

Costs

As social landlords will have discretion about whether and to what extent they make use of the new freedoms, it is difficult to precisely estimate the monetised costs they and others will face from doing so. For illustrative purposes estimates are presented on the basis of the scenarios set out above.

⁴⁷ The estimates of additional lettings resulting from the introduction of flexible tenancies include an allowance for the 'multiplier effect' whereby tenancy reviews lead more households to leave the social sector, which in turn results in a greater number of flexible tenancies being granted, and so on.

Costs to landlords

All 326 local housing authorities would be required to familiarise themselves with the new legal framework and develop a strategic policy on the granting of new social tenancies within the area in consultation with other landlords. Doing so will form a source of cost in 2011 when it is anticipated legislation will come into force and whenever the policy is reviewed (assumed to be every five years on average). The cost of producing and updating strategic tenancy policies will vary depending on the amount of staff time this takes and any publication costs incurred, but might be £1,500, £2,500 or £4,500 per local authority.⁴⁸ Table 14, below, shows the total costs to local authorities over 30 years.⁴⁹

Social landlords that decide to take advantage of the greater freedoms to use tenancies with fixed terms would also incur costs as a result of the requirement to publish and maintain a policy explaining the circumstances in which these would be used. Such costs are likely to be less for smaller landlords than those that manage large stocks of social housing. For example, these might be in the range of:

- £1,200, £2,600, £4,000 for the 54 very large private Registered Providers of housing (those with more than 10,000 units)
- £1,100, £2,100, £3000 for 325 large Registered Providers (with stocks of 1000-9,999 dwellings)
- £800, £1000, or £1,100 for 141 medium Registered Providers (with 250-999 properties)
- £300, £500, or £800 for 1,058 smaller Registered Providers.⁵⁰

The implied total costs to Registered Providers of housing over a 30 year period are set out in Table 14 below.

Up to 174 local authority landlords would also need to produce their own tenancy policy if they decide to take advantage of the freedom to use flexible tenancies. Total costs over 30 years are also shown in Table 14, assuming costs per local authority landlord are the same as those for 'very large' private Registered Providers of housing.

Table 14: Scenarios for costs of tenancy policies, £m

Scenario	Cost to local housing authorities from strategic tenancy policies	Cost to local authority landlords from tenancy policies	Cost to private Registered Providers from tenancy policies
Low	£2	£1	£7
Central	£4	£2	£8
High	£7	£3	£9

Social landlords that choose to grant flexible tenancies will incur additional costs from:

- a) carrying out reviews of flexible tenancies
- b) providing support and advice to households that move on
- c) more properties being void whilst tenants change.

⁴⁸ Staff wage costs used in these calculations are set out in the common assumptions section

⁴⁹ Costs are discounted in line with HM Treasury Green Book appraisal guidance

⁵⁰ Size profile of landlords taken from Tang C. (2010) *Trends in Housing Association Stock*, Cambridge Centre for Housing and Planning Research, University of Cambridge

Assuming that tenancy reviews take staff an average of two hours to conduct, each one might cost social landlords £47. In practice we would not expect all these review costs to be genuinely additional. Keeping tenancies under review is already part of good tenancy management by landlords. For the purposes of this analysis we have assumed that the additional cost of reviewing flexible tenancies is 50 per cent of the total review time. The potential costs in each of the scenarios are set out in Table 15, below. Most of the costs would fall later in the appraisal period owing to the time taken for flexible tenancies to be granted and the delay before reviews are carried out. Current lettings trends suggest that around half of these costs might be met by private Registered Providers, with the remainder incurred by local authority landlords, although in practice this will depend on how much use either group makes of flexible tenancies.

In cases where a decision is taken that fixed term tenancies should not be renewed, landlords may also incur costs from providing support and advice to households to enable them to move on. This could range from basic assistance identifying housing options to more thorough support with budgeting and locating suitable properties. On average the amount of staff time spent supporting households that move out of the social sector following tenancy reviews might range from one to three hours, costing landlords between £24 and £71 per case. Table 15, below shows the potential costs over 30 years of providing advice and support to households leaving the social sector. Without better information on the likely use of flexible tenancies we assume that these costs will be borne by private Registered Providers and local authority landlords in roughly equal proportion.

Table 15: Scenarios for costs to social landlords from operating flexible tenancies, £m

Scenario	Cost of reviewing flexible tenancies	Cost of providing support and advice	Costs from longer void periods	Cost from possession proceedings	Total cost to landlords from operating flexible tenancies
Low	£35	£4	£7	£1	£48
Central	£54	£27	£24	£5	£110
High	£74	£96	£61	£12	£243

Landlords that adopt the policy may also experience greater void costs – lost rental income – if there is greater turnover in the stock. The total amount of rental income foregone by social landlords over 30 years is set out in Table 15, above, assuming each additional letting results in a social dwelling being vacant for a week on average.⁵¹ Costs might be split approximately half and half between local authority landlords and Registered Providers.

If landlords make use of flexible tenancies as envisaged by the three scenarios above then there are likely to be associated court costs. Some social tenants are likely to refuse to vacate properties when required to do so at the end of tenancy periods – particularly in the first few years that tenancies come to an end, before this is perceived as routine. In such cases landlords will need to seek possession orders in the county court to recover the dwellings, thereby increasing judicial workload. The costs of this must be met by the social landlords.

There is little evidence on how many tenants might decline to leave social housing if requested to do so by their landlord at the end of a fixed-term tenancy. Assuming, for illustrative purposes, that one in twenty households whose flexible tenancy came to an end refused to vacate their property, 11,000 possession orders might be required in the low scenario, 39,000 in the central scenario and 91,000 in the high scenario, over a 30 year period. The cost to government of judicial time and administrative activities necessary for granting a possession order is taken to be £100 on average, in line with court fees for possession proceedings. It would fall to social

⁵¹ Average rents are detailed in the common assumptions section

landlords to pay this court fee, along with any other legal costs. It is assumed that social landlords require 30 minutes of legal advice and representation for each set of possession proceedings, at a cost of £150 per hour.⁵² Table 15 sets out the total cost of non-compliance in each of the scenarios. In practice it might be possible for social landlords to reduce possession costs below this level by carrying out activities in-house or using specialist legal services.

Overall, the equivalent annual net cost⁵³ to Registered Providers of housing is estimated to be £800,000 in the central case and £400,000 or £1.6m in the low or high scenarios.

Costs to households

The introduction of freedoms to grant flexible tenancies may also lead to costs for certain types of household, specifically those that find themselves unable to continue living in social housing when their tenancies come to an end and are not renewed by landlords. Reforming succession rules will have similar impacts for persons that lose the right to take on a social dwelling following the death of the original tenant.

The types of household likely to be affected by tenancy reviews will depend on the criteria set out in local tenancy policies and on landlord discretion so it is not possible to specify which households will lose out from the policy. However, as noted above, it is likely that flexible tenancies would be granted to less vulnerable households whose circumstances are more likely to change over time so households exiting the social sector might have higher than average incomes for the sector.

These households might have to pay higher rents for private rented sector accommodation, assuming they are not in receipt of Housing Benefit. In cases where households that leave the social sector following reviews of flexible tenancies *are* in receipt of Housing Benefit then part of this additional cost might accrue to government, although it might be offset by lower expenditure on other low income households that can be accommodated in the social sector instead.

Former social tenants that move into private rented accommodation would typically have less secure tenure than that provided in the social sector. Flexible tenancies would also provide less security than existing secure or assured tenancies. The question of security of tenure for social housing tenants is a widely debated area and it is often argued that households place a value on greater tenure security. A synthesis of academic papers, *The future of social housing*⁵⁴ stresses that ending security of tenure raises issues surrounding worklessness and vulnerable people. However, the Centre for Social Justice Report *Housing Poverty: from Social Breakdown to Social Mobility* called for a wider mix of tenures and flexibility to allow social landlords to let homes on their own terms and to meet the needs of tenants.

There is little evidence on how much tenants would be willing to pay to avoid losing security. It is common for private tenancies to be provided with minimum terms of 6-12 months though, which suggests that many existing private renters are not willing to pay a rental premium in order to secure the benefits of longer contracts.⁵⁵ This implies that reducing security of tenure might only have a slight adverse impact on households, although it could be the case that social rented households place a higher premium on security than the average household – either as a result of being more vulnerable or older than private renters.

⁵² HM Courts Service, figures for the summary assessment of costs 2008

⁵³ See Annex 4 for a definition of 'equivalent annual net cost'

⁵⁴ Fitzpatrick and Stephens (2008), Shelter, p.156

⁵⁵ Comparing revealed preferences of private tenants to those of social rented households may be misleading because of legal differences between the two sectors. The secure and assured tenancies commonly granted to social renters offer households significant protections against eviction but provide an option for households to terminate the agreement should they wish. In the private sector, lengthening the minimum term specified in Assured Shorthold Tenancies would likely be contractually binding on both parties.

Costs to government (legal aid impacts)

Any use of flexible tenancies or an increased use of assured shorthold tenancies could have legal aid implications. If a tenant disagrees with the landlord's decision not to renew a tenancy then it is a possibility they could apply for Legal Help and Help at Court to help them defend their landlord's application to the county court for possession.

Termination of assured shorthold tenancies at the end of the fixed term will be by way of the usual 'section 21' procedure and with the new local authority flexible tenancies the tenant will only have limited right to challenge the landlord's right to possession on grounds that the local authority has made an error of law or a material error of fact. The limited right of appeal may affect numbers of cases in courts but it might not reduce the possibility of receiving legal aid in an individual case if it has merit.

The limited right of appeal to the landlord's right to possession in the county court on grounds that the local authority has made an error of law or a material error of fact should also significantly reduce the possibility of further challenge by way of judicial review.

Benefits

Flexible tenancies are expected to bring significant benefits to new and existing social tenants and their landlords by making it easier for tenants to move and enabling landlords to make better use of stock. Research carried out by Heriot-Watt University for the Department for Communities and Local Government finds that availability of social housing lets for those in housing need has a big effect on how many households experience poor housing outcomes, such as overcrowding and affordability problems.⁵⁶

The three scenarios presented above suggest that the policy could potentially lead to reductions in housing need on a large scale – because even in the low scenario there could be an extra 200,000 moves by social tenants over the coming 30 year period. In the central scenario there would be 500,000 additional moves and in the high scenario: 1.4 million. These are likely to bring benefits to more needy households, since they are likely to improve the availability of social housing for vulnerable groups. As a result the reforms are likely to lead to improvements in housing outcomes, for example a reduction in the number of households living in overcrowded or otherwise unsuitable accommodation.

The Hills report found that, even controlling for labour market disadvantages, worklessness amongst social tenants remains disproportionately high compared to other tenures⁵⁷. There is little evidence to show that, in practice, the below-market rents and comparative stability provided by the social sector are providing effective incentives for social tenants to move into employment. Alongside benefit reform and more flexible approaches to allocations policies, tenure reform opens the way for landlords to create new work incentives. Policies on the renewal of tenancies might for example focus on ensuring that those in low paid employment and not able to access low cost home ownership continued to receive support through a social tenancy, when their existing tenancy came to an end. Whilst the extent to which landlords might decide to frame tenancy policies to support tenants in work and the behavioural change resulting from such policy decisions is uncertain, the role of flexible tenancies in encouraging tenants to take up and retain employment could be substantial.

Flexible tenancies could therefore bring about substantial benefits by reducing worklessness amongst social tenants. Increasing the number of households in paid employment generates

⁵⁶ Bramley et al (2010) *Estimating Housing Need*, DCLG, <http://www.communities.gov.uk/documents/housing/pdf/1776873.pdf>

⁵⁷ Hills J. (2007) *Ends and means: the future roles of social housing in England*, LSE

three sources of benefit:⁵⁸

- i. to the individuals themselves, e.g. in the form of higher incomes
- ii. to government and taxpayers, through reducing expenditure on working age benefits and increasing tax receipts; and
- iii. to the wider society, e.g. from consequential improvements in crime and health outcomes.

Analysis of the tax and benefits system, undertaken by the Department for Work and Pensions, shows that the total benefits to arise from an individual moving off of benefits and into work can amount to between £15,000 and £22,000 per annum in the case of recipients of Income Support or Jobseeker's Allowance.⁵⁹ The size of benefits will depend keenly on the particular circumstances of individual tenants though.

Whilst it is uncertain what impact introducing flexible tenancies will have on worklessness, it is evident that even if relatively small improvements in employment outcomes were to follow from these reforms then benefits could be considerable. With around 2.4 million households estimated to be granted flexible tenancies over the 30 year appraisal period in the central scenario, and 42 per cent of new general needs lettings currently going to households that are unemployed, inactive or in government training,⁶⁰ it is conceivable that the benefits of reducing worklessness could exceed the monetised costs associated with tenure reform. For example, the net present value introducing flexible tenancy reforms might become positive in the central scenario if as few as 6,000-8,000 workless individuals entered employment for a single year. Table 16, below, presents estimates of the number of additional individuals that might have to enter work for this threshold (of £123m) to be reached in each of the scenarios, alongside the estimates for total number of flexible tenancies granted over the appraisal period.

Table 16: Estimated number of individuals entering work as a result of tenure reform for associated benefits to exceed monetised costs

Scenario	No. individuals entering work for related benefits to exceed monetised costs		No. flexible tenancies granted over 30 years
	Lower estimate	Upper estimate	
Low	3,000	4,000	1,600,000
Central	6,000	8,000	2,400,000
High	12,000	17,000	3,500,000

Benefits to landlords

The freedom for local authority and housing association landlords to determine the sort of tenancy they grant to new tenants will be radically increased. Social landlords will have the flexibility to promote fairness; to ensure that help and support are focussed on those who need it most when they need it most; and to build strong and cohesive communities. That freedom extends to landlords deciding to continue to provide most or all new tenancies on a secure or assured basis, if they so choose, where they think this is the best way to meet the needs of individuals or the wider community.

Social landlords will have greater flexibility in offering more suitable tenancy lengths and be better able to reflect local circumstances and needs. Landlords will be able to give incentives to reflect positive tenant behaviour and ensure that tenants take their responsibilities seriously.

⁵⁸ DWP (2010) *The Department for Work and Pensions Social Cost Benefit Analysis Framework: Methodologies for estimating and incorporating the wider economic and social impacts of employment in cost-benefit analyses of employment programmes*, <http://research.dwp.gov.uk/asd/asd5/WP86.pdf>

⁵⁹ DWP, Tax Benefit Model. Benefits from movements into employment are highly dependent on individual circumstances and the figures above are based on hypothetical circumstances. For published tables see: http://research.dwp.gov.uk/asd/asd1/tbm/TBMT_2009.pdf

⁶⁰ DCLG, CORE 2008-09

Having the ability to offer new tenancies or longer tenancies for those individuals that enter employment or positively contribute to their neighbourhoods could provide strong work incentives and provide wider community benefits.

In the longer term, costs to landlords may potentially be offset by efficiencies in more efficient use of housing stock – especially for some local authorities that might make less use of Temporary Accommodation.

For all tenancies which are created in the future there will be a minimum right of succession. This will be one succession to the spouse or partner of the deceased tenant. Beyond this minimum, landlords will be free to offer whatever succession rights they choose, including allowing other family members to succeed and allowing more than one succession. This will increase flexibility for landlords, allowing them to have more control over who is given the tenancy, and reduce, for example, the sort of unfairness that can occur when individuals in no housing need are given rights to a property for the rest of their life, while a vulnerable household is left without suitable accommodation..

Benefits to households

The Government is committed to ensuring that the existing tenancies of secure and assured tenants of social landlords are protected and respected. There will be a guarantee that those currently with secure and assured tenancies will be protected from any changes to their security or other rights. This will ensure that all tenants with an existing secure or assured tenancy can be confident that their tenancies won't change in the future.

Placing a duty on local authorities to publish a strategic policy on the grant of new social tenancies within the area will provide transparency, enabling local communities to understand clearly how social landlords are responding to local housing needs and priorities.

Households that are overcrowded should have a better chance of moving to more suitable accommodation as larger homes are freed up when flexible tenancies come to an end. The end of automatic succession to family members even when they have no need of social housing should also increase the stock of larger properties available to families who want to move (ref. Chart 5). As a larger range of suitable housing becomes available this will increase mobility for all households, whether they wish to move to a larger or smaller property or move for family reasons or a work opportunity.

Tenure reform may play an important role in encouraging some low income households to engage with the labour market. The current social housing system may encourage welfare dependency.⁶¹ Instead, with the tenure reform and benefit changes, it could provide a springboard into work and self-sufficiency. A tenant who is aware that a social home is provided for a specific period may face and/or perceive greater incentives to actively seek work. Landlord tenancy policies could bring about a positive shift in behaviour amongst workless social tenants by prioritising tenants in low paid employment when decisions on whether to renew a tenancy are made at the end of a fixed term.

Wider economic and social benefits can also result from increasing employment. The propensity of individuals to commit crime has been shown to fall and for health outcomes to improve upon entering work.⁶²

⁶¹ Centre for Social Justice (2008) *Housing Poverty: from Social Breakdown to Social Mobility*, www.intute.ac.uk/cgi-bin/fullrecord.pl?handle=20081204-11111858

⁶² DWP (2010) *The Department for Work and Pensions Social Cost Benefit Analysis Framework: Methodologies for estimating and incorporating the wider economic and social impacts of employment in cost-benefit analyses of employment programmes*, <http://research.dwp.gov.uk/asd/asd5/WP86.pdf>

With the succession changes, tenants could now have the opportunity to have their tenancy passed on more than once. Social landlords will have more freedom to allow succession to others. This might provide an element of certainty for a tenant's family members who are living with them.

The Right to Buy and Right to Acquire are important features of existing secure and assured tenancies, which have helped nearly two million people become home owners. It is important that in reforming social housing, opportunities are strengthened rather than diminished. Flexible tenants will still have the option to achieve independence and to become home-owners if they wish to do so. Legislation will extend the Right to Buy and Right to Acquire to flexible tenants, subject to the same conditions and exceptions applicable to secure and assured tenants.

In order to ensure that existing secure and assured tenants are not deterred from moving, we propose that they will be granted a new secure or assured tenancy when they move to another social rented home. This guarantee would be provided through provisions in a new tenancy standard and legislation. The guarantee will not include tenants wishing to take advantage of the new affordable rented tenancies.

Benefits to government

The reforms could potentially bring about substantial reductions in government expenditure on housing benefit. Ceasing to provide all tenants with lifetime access to social housing when their needs may be short term could reduce the amount of social housing occupied by households who need it less whilst other more vulnerable households go without that support (or wait longer to access it). Devolving power to social landlords so they can make decisions on the basis of local need and circumstances should mean that appropriate decisions can be made locally.

Using flexible tenancies and changing succession rules could create between 160,000 and 1.3 million additional lettings over a 30 year period. If this results in a greater number of households in receipt of housing benefit residing within the social sector rather than in private rented accommodation then the cost to the exchequer of providing housing benefit support might fall because average rents for social housing are lower than those in the private rented sector.

Of course, there might be an increase in the cost of housing benefit support provided to low income households that leave the social sector. The overall exchequer impact will depend on whether the change in benefit payments to households that move out of the social housing is offset by the change in expenditure on the households that are able to access the social rented sector.

The profile of recent entrants to the social sector suggests that the majority of households entering the social sector are likely to have low incomes and be in receipt of benefit support. There is a large degree of uncertainty around the characteristics of households that might leave the social sector though.⁶³ This will depend on the circumstances in which social landlords decide to grant flexible tenancies and the criteria that might be used to review. Without more detailed information on the households that might be affected by the policy it is not possible to estimate the likely housing benefit impacts of the policy.

To the extent that tenure reform results in more tenants entering work there will be reductions in expenditure on working age benefits and other benefits paid to low income households. Government (and ultimately taxpayers) might also benefit from additional receipts from income tax, National Insurance Contributions and indirect tax paid by social tenants in work.

⁶³ Individual household characteristics - such as numbers and ages of children, household income and disability – are very important for determining the amount of benefit support that households are entitled to receive.

Summary

The proposed reforms to tenure and succession rules for social housing will lead to a number of both benefits and costs for different groups of society. Local authorities will need to respond to the new framework and develop a tenancy strategy for their local area. Social landlords will have to be transparent about the circumstances in which different types of tenancies are used, and will incur costs when developing and publishing policies on this.

Social landlords that make use of flexible tenancies will have to conduct periodic reviews to ascertain whether their stock is being used in line with the priorities set out in their tenancy policies. Landlords will be required to offer support and advice in cases where additional social tenants move out of the sector as a result of tenancy reviews, and will also forgo some rental income in these circumstances. Each of these activities impose costs on social landlords.

The proportion of tenants who refuse to vacate properties following the end of flexible tenancies will require possession proceedings to be taken against them, entailing costs to social landlords.

Each of these sources of costs are summarised in Table 17. It can be seen that the total monetised cost of the proposals range from £57m to £262m (central estimate £123m) over 30 years.

Table 17: Scenarios for costs of tenure reform: by reason for cost, £m

Scenario	Source of cost					Total
	Developing and maintaining tenancy policies	Reviewing tenancies	Providing support and advice	Void costs	Court proceedings	
Low	£10	£35	£4	£7	£1	£57
Central	£13	£54	£27	£24	£5	£123
High	£19	£74	£96	£61	£12	£262

The following table presents the same costs, broken down by the type of body that they fall upon. The equivalent annual net cost⁶⁴ of tenure reforms to private Registered Providers of housing is estimated to be £800,000m in the central case and £400,000 or £1.6m in the low or high scenarios.

Table 18: Scenarios for costs of tenure reform: by affected party, £m

Scenario	Affected party			Total
	Local housing authorities	Local authority landlords	Private Registered Providers	
Low	£2	£25	£31	£57
Central	£4	£56	£63	£123
High	£7	£124	£130	£262

In addition to these monetised costs, there may be adverse impacts on some households that cannot continue to access social housing – either as a result of moving out following a tenancy review or not being able to succeed to a tenancy. Between 10,000 and 63,000 households might be affected each year on average (central scenario: 28,000). In total this equates to between 300,000 and 1.89 million households (central scenario: 840,000). These households may have to meet a greater proportion of their housing costs in the private sector themselves,

⁶⁴ See Annex 4 for a definition of 'equivalent annual net cost'.

although low income households will continue to be supported via the Housing Benefit system at a cost to government. Any changes in housing circumstances are however, likely to be beneficial to other, potentially more 'needy' households that can be accommodated in the social sector when others move out.

Following the reforms there will be less security of tenure for households that receive flexible tenancies rather than secure/assured tenancies. Households that move out of social housing and into private rented accommodation will also have less secure tenure. It has not been possible to attach a monetary value to these impacts.

Over the next 30 years the use of flexible tenancies could create between 160,000 and 1.4 million additional lettings as a result of the use of flexible tenancies (central scenario: 530,000) and changes to succession rules. Overall, it is expected that social housing will be able to support more vulnerable households at the expense of those that no longer require support – a positive distributional impact.

Households that are overcrowded should have a better chance of moving to more suitable accommodation as larger homes are freed up when flexible tenancies come to an end. The end of automatic succession to some family members even when they have no need of social housing should also increase the stock of available family homes. Larger numbers of available properties should increase mobility for all households on the waiting list, whether they wish to move to a larger or smaller property or move for family reasons or a work opportunity.

Freeing up more housing for those in greatest need could bring about positive externalities related to health and education outcomes, in addition to improving housing outcomes for the most vulnerable people. It could also generate significant savings in the housing benefit bill, by facilitating faster moves for homeless households from temporary into settled accommodation and reducing the numbers of those in greatest need in the private rented sector.

By creating positive work incentives, flexible tenancies could bring about substantial benefits by reducing worklessness amongst social tenants. Increasing the number of households in paid employment would benefit the individuals themselves, lead to exchequer savings by reducing the number of households claiming out-of-work benefit and have positive external impacts for society.

Summary: Analysis and Evidence

Mobility Policy - Option 3B

Description: Requiring landlords to participate in mutual exchange schemes through which tenants can search all records of potential partners across all participating mutual exchange schemes

Price Base Year 2010	PV Base Year 2010	Time Period Years 30	Net Benefit (Present Value (PV)) (£m)		
			Low: -£7.3m	High: £400,000	Best Estimate: -£1.3m
COSTS (£m)	Total Transition (Constant Price) Years		Average Annual (excl. Transition) (Constant Price)		Total Cost (Present Value)
Low	£0	1	£200,000		£4.4m
High	£100,000		£1m		£18.4m
Best Estimate	£100,000		£500,000		£9.6m
<p>Description and scale of key monetised costs by 'main affected groups'</p> <p>Early discussions indicate setup costs to providers of mutual exchange services might be between £0 and £100,000 but these will depend on the technical solution and business model adopted. Providers will have to ensure their systems remain able to share data and that 'linking technology' is kept up-to-date, which might cost £270,000 over a 30 year period. Landlords are likely to face costs when familiarising themselves with new requirements and complying with the new Standard; these might total £500,000 over 30 years. Administering extra mutual exchange moves could cost landlords £3.5m, £8.8m, or £17.5m depending on the number of moves.</p>					
<p>Other key non-monetised costs by 'main affected groups'</p> <p>Requiring data sharing is likely to be costly for some existing mutual exchange providers (although it could benefit others). They are likely to face greater competition on price and quality if the proposals are implemented, perhaps reducing profits for some.</p>					
BENEFITS (£m)	Total Transition (Constant Price) Years		Average Annual (excl. Transition) (Constant Price)		Total Benefit (Present Value)
Low	0	n/a	£300,000		£4.8m
High	0		£600,000		£11.1m
Best Estimate	0		£500,000		£8.3m
<p>Description and scale of key monetised benefits by 'main affected groups'</p> <p>Providing social tenants with access to details of all potential mutual exchange partners that are registered with participating schemes could save tenants £2.8m (£1.9m to £3.8m) in subscription fees over 30 years. Landlords might see a reduction of £5.5m (£2.9m to £7.3m) in administration and void costs associated with transfer lettings.</p>					
<p>Other key non-monetised benefits by 'main affected groups'</p> <p>Existing social tenants will be better able to move house by arranging mutual exchanges. Tenants will have a greater choice of potential swaps and mobility is likely to increase as a result. As well as making households better off, this could have wider social benefits. For instance, the number of tenants living in unsuitable accommodation might fall, with beneficial health, education and criminal justice impacts. More tenants might be able to move for work related reasons and if as few as 60-90 gained employment for a single year then benefits could exceed monetised costs. Requiring data sharing could also boost competition between mutual exchange providers by reducing barriers to entry in the marketplace. This could bring benefits to social tenants and landlords in the form of higher quality services and lower prices.</p>					
Key assumptions/sensitivities/risks					Discount rate (%) 3.5%

The cost estimates presented above are based on illustrative assumptions that the number of mutual exchange moves will increase by 10 per cent, 25 per cent or 50 per cent as a result of the proposals. It is uncertain how many more households will choose to move as a result of getting more information on prospective swaps. Both costs and benefits are likely to move in line with the number of extra mutual exchanges brought about by the option. There is a risk that existing providers of mutual exchange services may consider they will lose out from the proposals and do not behave as anticipated – refusing to participate or obstructing a national home swap scheme.

Impact on admin burden (AB) (£m):			Impact on policy cost savings (£m):	In scope
New AB: £0	AB savings: £0	Net: £0	Policy cost savings:	Yes/No

Evidence Base (for summary sheets) – Mobility Policy

Description of policy options

Summary of key points:

- Social tenants may exchange their home with other social tenants if both landlords agree. These house-swaps are known as mutual exchanges.
- Many landlords provide mutual exchange as part of the housing options advice services they offer – often subscribing to an online service that is then provided to tenants at no cost.
- However, the number of social tenants moving via mutual exchange is lower than it might possibly be because tenants are only able to identify potential swap partners from amongst other properties that have been registered on the same scheme.
- This does not support mobility within the social sector. It may be causing tenants to remain in unsuitable housing and making it harder for people to move to be closer to work, family or carers.
- The preferred option would give the Secretary of State a power to direct the social housing regulator to set a standard on mutual exchange and on the content of this standard. The direction is currently envisaged as requiring social landlords to partake in mutual exchange schemes that will allow tenants to search records of potential partners across all participating mutual exchange schemes.
- Mutual exchange providers would need to share data about available properties (by making technical changes) in order to continue providing their services to social landlords.
- Other options included government providing a central database and requiring all mutual exchange providers to pool their data on this site.

Background on mutual exchange of social dwellings

Section 92 of the Housing Act 1985 gives a secure tenant the right to exchange their home with another secure or assured tenant in any part of the country subject to the agreement of both landlords. These house-swaps are known as mutual exchanges. Secure tenancy landlords are only able to refuse a request for a mutual exchange in certain situations set out in Schedule 3 of the Housing Act 1985. The circumstances in which other social landlords can refuse exchanges will depend on what is in individual tenancy agreements, subject to the rules imposed by the Regulator.

Many tenants will look for a mutual exchange partner if they are unsuccessful in achieving a transfer with their existing landlord (or in areas where common allocation policies operate, with another landlord partnered in a Choice Based Lettings scheme) or if they wish to move further a-field.

In 2009 approximately 13,000 local authority tenants moved home through mutual exchange.⁶⁵ The number of mutual exchanges involving local authority tenants declined by an average of 8 per cent per annum between 1998 and 2004, when a scheme called MoveUK was introduced to improve mobility, and fell another 19 per cent by 2009. There is no central record of the number of mutual exchanges agreed by Housing Associations. However, according to the recently published report of the Mobility Taskforce⁶⁶ the two main providers of mutual exchange services estimate that 22,000 tenants on average move in this way each year.

Problem under consideration

In order to facilitate the mutual exchange process for tenants, many landlords provide mutual exchange as part of the housing options advice services they offer. Information gathered by officials at the Department for Communities and Local Government suggests that upwards of 80 per cent of social landlords are currently providing over 3.3 million households with access to one mutual exchange service or another. In the majority of such cases, tenants are provided with free access to a service through their landlord's subscription (though this does not necessarily mean they use the mutual exchange service).

The bulk of landlords subscribing to mutual exchange services appear to be fee paying members of one of two leading internet based services. Other landlords subscribe to smaller services as part of their Choice Based Lettings Scheme. In addition a small number of local authority landlords administer their own in-house mutual exchange scheme. These all assist tenants wishing to exchange their properties to advertise the properties on the sites as well as find potential swap partners.

Many landlords see this service as being able to increase levels of mobility and offer tenants more choice and control over where they live. Mutual exchange also provides advantages to landlords as they do not typically incur void costs or other costs associated with getting vacant properties ready. In addition, the Tenant Services Authority's Tenancy Standard expects that landlords shall participate in mobility schemes and mutual exchange schemes where these are available.

The online services however may not be readily available to those tenants who are not IT literate and may also limit tenant's potential swap options to those available from that provider.

Although mutual exchange services are seemingly available to over 80 per cent of social tenants, the way these services are operated restricts the level of choice available to prospective movers to only those properties registered with the provider(s) they or their landlord subscribes to. In other words access to most existing mutual exchange services only allows tenants to identify potential swap partners from amongst other households that have registered on the same scheme. The downside is that tenants wishing to move outside their local area, or even simply a short distance across a local authority boundary, may need to register with more than one provider. This has resulted in the number of social tenants able to move house by way of mutual exchange being less than it might otherwise be.

Tenants are, however, free to register with additional mutual exchange schemes if they so wish. Likewise, those tenants whose landlords do not offer across-the-board access to mutual exchange services are free to register with one of the internet-based schemes. Joining another mutual exchange service in addition to any one supplied via their landlord provides tenants with the ability to access details of further potential home-swaps, although there is usually a

⁶⁵ DCLG, Housing Strategy Statistical Appendix

⁶⁶ Report of the Mobility Task force, August 2010, p.9,

www.housing.org.uk/Uploads/File/Policy%20briefings/Neighbourhoods/Mobility%20Taskforce%20report%20August2010.pdf

subscription charge to pay with each registration, as well as the need to input their details and requirements each time.

The costs involved – in terms of time, inconvenience and money – and the complexity of the system are likely to prohibit some tenants from joining one or more services, particularly if they have to sign up and negotiate various IT systems, or would require some support to negotiate an internet service. This potentially blocks some moves within the social sector. The upshot is that the number of social tenants that move as a result of exchanging their home with another household is lower than it might be, hindering mobility within the social sector.

Rationale for intervention

It is unacceptable that mobility of social tenants is hindered by the current system for facilitating mutual exchanges using internet services. This may be causing social tenants to remain in unsuitable housing because they are not able to find suitable mutual exchange swaps. It is making it harder for people to move to be closer to work, family or carers with economic and health implications. The inadequacy of the current allocation system has also contributed to a lack of choice for existing tenants, because they often have to compete with households on the waiting list for a chance to move by transfer (see page 15 for a summary of proposed changes to the allocations system). It is therefore important to make changes to this system in order to put tenants firmly in control of where they want to live and empower them to move – whether that be for a new job, to be closer to family, or any other reason.

Where tenants ability or choice is restricted due to costs and difficulties of registering with multiple providers, this is likely to be exacerbated for those tenants who do not have direct access to IT and rely on others to search on their behalf. Government needs to intervene to improve the quality of the service provided to social tenants by taking steps to ensure that they have access to all possible matches for a mutual exchange. In order to increase the number of moves organised through mutual exchange and to encourage greater mobility within social housing, a national social home swap programme is merited. This arrangement will involve all mutual exchange service providers sharing data so that tenants are able to see all potential matches no matter which provider they are registered with so that the chance of finding a swap partner is maximised. As well as increasing the chances of finding a swap partner for tenants who are already registered, the improved service of the new scheme should motivate tenants who haven't previously considered moving to take action as they realise that they do have an opportunity to move to a property or area that better meets their needs

Policy objectives

The policy objectives are to improve levels of mobility in the social rented sector by increasing opportunities for social tenants to move by exchanging their tenancy with that of another household. Achieving this aim will help bring social and economic benefits to people living in the social housing sector and to the wider community, for example by enabling tenants to move for employment related reasons and through tenants feeling more committed to the community that they have chosen to move into.

This will be achieved through the introduction of a nationwide social home swap programme which would provide a coordinated single point of access and referral for social housing tenants and maximise the potential to identify swaps by having access to details of all properties available for mutual exchange through all providers across the country. Tenants would no longer need to register with more than one service.

Policy options

Option 3A – Do nothing; exchange providers continue to offer their existing service

This option, which forms the baseline against which other options are appraised, would leave the current arrangements for facilitating mutual exchanges in place. This means tenants and landlords would continue to choose between mutual exchange service(s) that did not provide users with information on all potential home swaps, so may have to sign up to several.

Leaving the regulatory arrangements in place, i.e. the social housing regulator continuing to require all landlords to participate in mutual exchange schemes without prescribing in detail what sort of system they should participate in, was **rejected** because tenants ability to move within the social sector would continue to be hindered by a lack of information on potential partners.

Option 3B – Requiring landlords to participate in mutual exchange schemes through which tenants can search all records of potential partners across all participating mutual exchange schemes

The government's **preferred option** would give the Secretary of State a power to direct the social housing regulator to set a standard on mutual exchange and on the content of this standard. It is envisaged that the standard would require that landlords must participate in mutual exchange schemes through which tenants can search all records of potential partners across all participating mutual exchange schemes.

Under this option the intention would be that providers of mutual exchange services would need to share their data with other mutual exchange providers in order to continue to be able to gain subscriptions from landlords. Data sharing would not be required of mutual exchange providers that deal with direct subscriptions from individual tenants. We would envisage that the introduction of the draft legislation would encourage providers to work together on a voluntary basis to develop a technical data sharing solution.

In many cases tenants would be likely to be able to continue using their existing chosen mutual exchange service but, unlike at present, they would only need to register once (and pay only one fee if they were a private subscriber) in order to be able to access details of every property registered with all participating providers.

This option might require some funding – either from government or providers of mutual exchange services – to develop the technology which would allow all providers to link their databases together. We are currently in discussions with external partners to explore the most appropriate technical solution that would implement this option. Working with external partners, the following technical solutions have been identified as possible means of achieving the objectives:

- **File-sharing:** This is expected to be a relatively low-tech solution, involving the periodic transfer of data files between service providers. While this approach might be supported by some of the smaller local home-swap schemes, it is likely to prove impractical when dealing with hundreds of thousands of records at a national level.
- **Development of a hub:** This could provide a robust system for storing data and allow private firms to develop low-cost portals for tenants to use. However, this option would need an organisation to host a hub and would entail running costs.

- **Web-matching:** This option looks the most promising solution. Service providers would need to store data on their own systems in a common format, and allow other systems to gain access to search for matches. Providers would need to demonstrate that their systems were robust enough to store personal data safely, and to make it available only to other tenants seeking to swap.

The relative merits of each option is being considered by a technical working group with representation from current service providers and the preferred solution will take account of recommendations arising from this group.

Option 3C – Procurement of a single national mutual exchange service by Government

This option would provide a central database procured by Central Government for all mutual exchange providers which would enable them to pool their data about all available properties on this site. The result of this is that tenants would be able to enter their details once into a website and search for matches anywhere in the country. The service would be based on existing sites so would be familiar and easy to use for tenants. **This policy option is less preferred** due to the costs and risks associated with procuring a central mutual exchange service (discussed below).

The Secretary of State would take a power to direct the social housing regulator to set a standard on mutual exchange and on the content of a standard on mutual exchange. The Standard would require that landlords must participate in the central database.

Existing providers or any other IT companies would be able to compete against each other to win the government contract which would ensure that all records of tenants willing to exchange their properties were available on this central database.

Costs and benefits

Baseline for appraisal

If government took no action then it is expected that mutual exchange would continue to operate as it does at the moment, with the social housing regulator continuing to require that social landlords participate in mutual exchange systems but not prescribing in any detail what sort of system they should participate in. The downside of this approach is that tenants would only have access to information about properties available for mutual exchange through provider(s) they or their landlords have subscribed to, which would restrict the number of potential swaps.

Tenants may find it difficult to organise and administer moves without additional advice, support or signposting to other services, particularly where they are searching for out of area moves.

Government does not collect data on mutual exchanges between tenants of Registered Providers of housing. Local authority returns show that the number of mutual exchanges taking place between local authority tenants fell every year between 1998 and 2009, from 35,200 to 13,000 (a drop of 62 per cent).⁶⁷

This decrease in mobility has taken place alongside a reduction in the number of social lettings and during a period where stock was being transferred from local authorities to Registered Providers of housing, which may have contributed to the trend. Removing the effect of the latter by comparing the rate at which social tenants exchanged properties with one another across

⁶⁷ Communities and Local Government, Housing Strategy Statistical Appendix

years, shows that as a percentage of local authority dwelling stock, mutual exchanges declined every year from 1998 to 2004 (from 1.1 per cent to 0.7 per cent per year).⁶⁸ Since then however they have remained broadly stable at around 0.7-0.8 per cent per annum.

Table 18: Local authority lettings and mutual exchanges

Year	Local Authority dwelling stock, 1000s	Local Authority lettings	Mutual Exchanges	Rate of Mutual Exchange
1998	3,309	369,000	35,200	1.06%
1999	3,178	349,000	29,900	0.94%
2000	3,012	329,000	25,500	0.85%
2001	2,812	304,000	22,400	0.80%
2002	2,706	271,000	20,100	0.74%
2003	2,457	255,000	17,800	0.72%
2004	2,335	213,000	16,000	0.69%
2005	2,166	194,000	15,800	0.73%
2006	2,086	174,000	14,900	0.71%
2007	1,987	160,000	14,600	0.73%
2008	1,870	144,000	14,300	0.76%
2009	1,820	139,000	13,000	0.71%

This pattern suggests that if government takes no further action the number of local authority tenants moving as a result of home swaps will either remain at around current levels or fall further. The government's objective of increasing social sector mobility is unlikely to be achieved.

The current system of mutual exchange sees some tenants pay to register with providers, either because their landlord has not subscribed on their behalf or because membership of additional services is necessary in order to maximise the number of potential matches. The subscription rate for an individual tenant is typically about £7 per quarter for each additional service they subscribe to. This additional cost implication may act as a disincentive for many tenants joining multiple schemes which would impact on their chance to move.

One of the factors landlords take into account when deciding which provider(s) to subscribe to, is the size of the providers' subscription lists i.e. how many landlord and tenant users of the service there are. If government took no further action then mutual exchange providers would be likely to continue competing for business on size grounds (as well as on price and other attributes of product quality). Information gathered by officials at the Department for Communities and Local Government suggests that the mutual exchange market resembles a duopoly: most social landlords appear to have contracts with one of two providers. These two main providers have an estimated 280,000 users between them and it is likely that their scale is a source of competitive advantage over rivals. Market concentration may increase further in the baseline scenario, which, if this gives the dominant providers further market power, might be to the detriment of tenants and landlords.

Costs from preferred option (3B)

Setup costs

Possible **costs of this option include those from making changes to providers' IT systems that enable their data to be shared.** These costs could be met by mutual exchange providers or it might fall to central government to provide the necessary funding. If the detail of the option is such that the costs fall upon commercial providers then they are likely to meet these provided

⁶⁸ DCLG, HSSA and Live Table 104

they can still operate profitably and the costs are less than the foregone business that would result from non-compliance. Otherwise providers might choose to exit that segment of the market rather than incur the costs of compliance.

Possible implementation costs will vary depending on the technical solution chosen and business model that is adopted. Early discussions with existing mutual exchange providers as well as some IT specialist companies who have the knowledge and expertise to facilitate this data-sharing scheme have indicated that the set-up cost for setting up a system that would link existing web-based systems together could total between £0 - £100,000. We will continue to work with existing providers and IT experts to identify the true costs. It is unclear at this stage how costs might vary depending on the number of providers participating in the scheme or how they would be apportioned between providers.

Offers have been received from some organisations willing to set up a system that would link existing mutual exchange systems at no cost to the mutual exchange providers of the relevant services. These organisations have indicated that they would meet the cost of providing this service through advertisement as well as through selling add-on services, either to landlords or mutual exchange providers. If this route to meeting costs were chosen then it would impose no monetary cost on existing providers or government, although placing additional advertisements with mutual exchange services would have an opportunity cost (foregone advertising revenue) for existing providers.

Ongoing costs

Providers of mutual exchange online services that join the data sharing scheme will have to ensure their systems remain able to share data and that the 'linking technology' is kept up-to-date. There is therefore a risk that they could incur further costs in the future for this purpose. It is however likely that this cost will be lower than the initial set up costs. If for example, further costs of £50,000 were incurred every three years following the implementation of a data sharing solution in order to maintain compatible systems then over a 30 year period costs could total £270,000 in present value terms.

Landlords might face costs as a result of the need to familiarise themselves with any new requirements upon them and to ensure that the necessary checks are carried out when subscribing to mutual exchange providers in future. This is to make sure they comply with the detail of the Standard by subscribing only to providers that participate in the data sharing scheme. However, these costs to landlords are expected to be minimal. It is likely to take no more than a few hours staff time to make necessary checks at the point when a decision is being made about which mutual exchange online service to subscribe to.

We estimate that the total monetary costs of the time might be approximately £110 per landlord in the first year that contracts are renegotiated on the basis that such checks might take about four hours administrative time which will be made up of three hours clerical time and one hour junior manager time.⁶⁹ In subsequent years only half an hour of junior managerial time is assumed to be taken up with such matters. If around 1,000 social landlords (re)subscribe to mutual exchange services each year from 2012 onwards then the cost could total £110,000 in the first year and £20,000 subsequently. Over 30 years the total cost to social landlords might be £500,000 (an average of £500 per landlord). It is likely that the majority of these costs (around 75 per cent or £380,000) will fall to Registered Providers since there are many more housing associations than local authority landlords.

⁶⁹ Information on wage costs used in this analysis is provided in the common assumptions section of the Impact Assessment.

Costs from additional mutual exchanges

It is also possible that landlords would incur ongoing costs from administering additional mutual exchanges if the scheme is successful at generating an increase in the number of mutual exchanges, since this is likely to consume extra staff resources. Given that relevant staff are already familiar with this process the additional cost per move is likely to be low – no more than several hours time for clerical staff (c.£70). Of course, any extra moves generated would bring offsetting benefits to tenants and to wider society.

It is very uncertain how many additional moves might take place as a result of requiring mutual exchange providers to share data. This depends on how providers respond to the legislation and on the increased probability of finding a match that would result from linking different systems together. Feedback from landlords suggests that word of mouth and other local networks are important in determining what moves currently take place within the local area. It has also been suggested that in some areas there are already potential matches between tenants but households find it difficult to narrow down and identify matches. This implies that the number of tenants participating in services might not be a binding constraint on the number of mutual exchanges taking place in some cases, and that complexity can be more of a barrier.

For illustrative purposes, three scenarios are considered: one where the number of mutual exchanges increases by 10% over the current baseline (taken to be 22,000 p.a.), and others where the number of mutual exchanges taken place is 25 per cent and 50 per cent greater. These would imply that 2,200, 5,500 or 11,000 more home swaps might take place each year.

If increases in mutual exchange numbers were of this order of magnitude then the cost to landlords of administering the additional home swaps might amount to £3.5m, £8.8m, or £17.5m over a 30 year period.

Total costs

The total monetised costs of the preferred option – including costs to providers/government of setting up and maintaining a data sharing system – might therefore be £4m, £10m, or £18m in present value terms.

Benefits from preferred option (3B)

The main benefit of the preferred option is that it will give existing tenants wishing to move through mutual exchange greater mobility and choice of the many properties available for exchange through the various web-based mutual exchange service providers who are part of the data sharing scheme. This will also maximise the potential for tenants to identify swaps across the country from the various providers who are part of the scheme without the need to register with multiple providers and is therefore likely to increase the number of moves.

In 2008-09, approximately 13,000 local authority social tenants moved home through mutual exchange, in spite of the current system of facilitating web-based mutual exchanges, although many more have registered for an exchange.

Introducing this duty on landlords to subscribe only to data sharing schemes would give tenants a wider choice of potential swaps as they will have access to information about all properties available for mutual exchange through most web-based providers. This will make it easier and less time consuming for tenants to identify potential mutual exchange swaps. As a result there are likely to be an increased number of moves than is obtained through the current restrictive system.

There will also be a greater chance of tenants who would have moved anyway identifying properties that are a better match to their needs if they are able to search from a wider pool of other households. This will also benefit households. This could lead to reductions in poor housing outcomes as well as improving the quality of life of individual tenants and increasing tenant satisfaction which could have positive external effects. E.g. reducing overcrowding has been shown to benefit educational performance and make it easier for households to make long distance moves and potentially take up employment.

In addition, the proposal will enable mutual exchange providers to compete for business by offering better all-round services, and it will be easier for new service providers to enter the market. This should mean that landlords face a real choice when responding to the new Standard and deciding which service provider to sign-up to; this availability of choice will in turn keep prices for landlords down.

The proposals will benefit social tenants that currently subscribe to one or more mutual exchange services in addition to the access they receive courtesy of their landlords. In future it will not be necessary for tenants to pay to join multiple services since they will be able to access details of all potential matches via any participating provider. Estimates made by industry sources suggest that between 1 per cent and 2 per cent of registered users might in fact be registered with multiple providers. For modelling purposes it is assumed there are currently around 300,000 tenants registered with mutual exchange providers, paying subscription fees of £7 per quarter, and that the same numbers rejoin each year in future. Over 30 years benefits to tenants could amount to £2.8m – if 1.5 per cent of these tenants saved the equivalent of 12 months subscription fees. If the percentage of tenants paying subscription fees to one or more mutual exchange providers was at either end of the range above then savings might range from £1.9m to £3.8m.

A further benefit of increasing the number of mutual exchange moves taking place comes from savings to social landlords compared to administering a transfer within the sector. If existing social tenants move through the transfer route, landlords are likely to incur some void costs whilst properties are advertised and bid for. The landlord may also incur costs to bring the vacated property back up to scratch before it can be re-let. These costs are not incurred if tenants exchange their properties direct and the resulting savings would likely offset the costs to landlords from administering mutual exchanges that are set out in the previous section. Assuming that 30 per cent (20-40%) of the additional mutual exchange moves that taking place following the introduction of the preferred option are substitutes for transfer lettings, the proposal could save social landlords £2.2m in foregone rental income over 30 years (between £1.2m and £3m). Social landlords would also save on administrative costs in these cases. These could amount to £3.3m over the appraisal period (between £3m and £7.4m) assuming that half a day of staff time would otherwise have been entailed to orchestrate a transfer.⁷⁰

Total monetised benefits from increasing mutual exchanges might therefore range from £4.8m to £11.1m with a central estimate of £8.3m.

Any extra moves will improve households' welfare and could have wider social benefits. For instance, more mutual exchanges could reduce the number of tenants who live in unsuitable accommodation, which impacts on health, education and the criminal justice system. Increased mobility may also contribute to an increase in the number of tenants who are able to move for work, thereby potentially improving their economic situation and bringing about substantial benefits to the exchequer in terms of benefit payments and tax receipts. The benefit – to government, the individual and wider society – of enabling just one individual to move off

⁷⁰ Details of assumed rents and wage rates are provided in the common assumptions section of the Impact Assessment.

benefits and into work can amount to £15,000 or £22,000 per year in the case of recipients of Income Support or Jobseeker's Allowance.⁷¹

Overall 8 per cent of households living in the social sector are unemployed and a further 24 per cent are other economic inactive (excluding retired and those in full time education).⁷² It is uncertain how many social tenants might enter work as a result of being able to arrange a mutual exchange though; we do not know the extent to which removing this barrier might increase employment amongst social tenants. Nevertheless the work related benefits of introducing a national home swap scheme could be significant. In the central scenario overall monetised benefits could exceed costs if the policy enabled as few as 60-90 tenants to enter paid employment for a year (giving benefits of £1.3m).

Distributional impacts for commercial providers and competition impacts from preferred option (3B)

At present mutual exchange providers operate in a free market and there is no restriction on who they offer their service to, or the type and quality of service they offer. The essence of competition is that suppliers compete against each other, by offering lower prices, better service, or better quality products to win customers and market share.

Many landlords see subscribing to mutual exchange services as providing value for money in terms of helping to save on costs in relation to voids and decoration of properties. Compared to providing an in-house service, subscribing requires little involvement from landlords and can potentially save staff resources. The majority of social landlords choose to pay subscription fees to mutual exchange providers so that their tenants can have free access to the web-based services these offer. Information gathered by officials at the Department for Communities and Local Government suggests that almost 70 per cent of social tenants have free access to web based mutual exchange services provided by the two major providers.

Information obtained from the providers suggests that, at present, around 650 social landlords subscribe to the largest provider and 152 landlords subscribe to the second largest. In addition to subscription fees from landlords, mutual exchange providers also charge tenants who subscribe to their schemes as individuals – either because their landlord does not subscribe to any scheme or to access a wider range of properties available for exchange. These individual subscriptions cost about £7 for three months membership, per tenant.

Initial feedback from landlords suggests that when selecting between mutual exchange providers at least some take into consideration which mutual exchange services other landlords within the area subscribe to in order to maximise the opportunities for their tenants to identify matches. Indeed, reports suggest that sub-regional groupings are common. The value that tenants/landlords place on the size of mutual exchange services creates an incentive for providers to expand their market share and to compete on the size of their networks. Commercial providers, especially those with larger market share are concerned that their participation in a scheme which shares data with other providers could mean that the smaller providers in the scheme would have access to the same data but market their services at a lower cost.

Landlords tend to subscribe to mutual exchange services on an annual basis so there are no lasting commitments on the part of landlords to stay with a provider. This means that contracts can be easily ended and landlords are free to switch between providers. By lowering barriers to entry in the mutual exchange market – reducing minimum efficient scale of operation – requiring

⁷¹ DWP, Tax Benefit Model. Benefits from movements into employment are highly dependent on individual circumstances and the figures above are based on hypothetical circumstances. For published tables see: http://research.dwp.gov.uk/asd/asd1/tbm/TBMT_2009.pdf

⁷² DCLG, English Housing Survey 2008-09

data sharing could boost competition. This is likely to be beneficial to providers that currently have fewer subscribers and to new providers who enter the market, who will have the opportunity to bid for contracts with landlords whilst offering the same access to tenant details as their more established rivals. There may be costs to existing mutual exchange providers since these are likely to face greater competition on price and quality, perhaps reducing profits. Any increase in competition is likely to benefit tenants and landlords though.

There are a number of other reasons why the policy could benefit some mutual exchange providers relative to others. Depending on how the proposals are implemented, they may significantly raise the cost of some existing providers relative to others. For example, the policy will favour firms that can easily meet the standards for sharing data over those that can't. It is also possible that sharing data could be more complicated for larger firms, or alternatively be more difficult for those with simpler systems. There is also a possibility that new entrants who adopt the shared technology from its advent are favoured over existing market participants.

Some mutual exchange providers may choose not to participate in data sharing in order to retain a source of competitive advantage but in this case they risk losing business to providers that do. Social landlords will only be able to subscribe to services that operate a data sharing model so any provider that does not participate will no longer be able to operate in the same way and will either have to exit the market or rely on subscriptions from individual tenants. If a large provider was to take either course of action then it could cause some temporary disruption in availability of mutual exchange services.

Providers also compete for business on the basis of the quality of service they offer, for example some offer additional stock management information to landlords on the number of overcrowded or under occupying households who have registered. Over the longer-term there is a risk that if providers who are part of the data sharing scheme compete vigorously on price then this lowers returns to investment in areas such as publicity and research and development. If this occurred then providers might cut back on advertising and marketing expenditure, and not seek to attract as many new tenants to the services as they currently do. This could reduce the quality and amount of data available for sharing through the scheme. It might also lead to less innovation in the types of service offered, e.g. the development of more sophisticated software to identify matches, which could also contribute to possible reduction in mutual exchanges relative to the baseline. However the overall costs of subscribing to services are relatively modest (typically a few thousand pounds per annum for landlords) so incentives for landlords to subscribe to the lowest cost services are modest, especially as tenants are likely to press for access to better services. The Standard will also require a greater number of social landlords to participate in mutual exchange, which should provide more revenues for service providers other things equal.

Price competition might drive more providers to adopt low cost internet-based business models. This risks excluding households that are unable to access a computer or lack the expertise necessary to put it to use. However, landlords are largely motivated by the interests of tenants and are likely to be wary of such issues. Pressure from tenants and landlords should encourage providers to compete on the basis of quality of service as well as price and to make their services more accessible to those without IT access. For example, one provider already complements their internet based system with assistance for tenants that prefer to use paper forms.

In future the systems used to provide mutual exchange services might be limited by the requirement that providers must share data with other providers. There is a greater chance of this occurring if a standard for data sharing is set without consulting existing providers or if it is not updated as technology moves on. Competition could be reduced because, insofar as the Standard will require databases to be interoperable, the proposals are likely to restrict suppliers' freedoms to organise their own production processes and their own choice of organisational form. This may limit the scope for mutual exchange providers to be inventive and innovative

and, as a result, they may become less efficient with adverse effects either on product quality or the prices paid by consumers. However, it is not certain that these effects will be significant and the involvement of the existing providers in developing the technical solution should ensure this is not an issue. The focus of competition may switch away from number of other households using the mutual exchange site to price or other attributes of service, stimulating innovation in areas such as ability to realise chain moves.

Costs from alternative option (3C)

Possible costs of this option for creating a national mutual exchange service, which is not preferred, would include the one-off costs of funding an existing provider or IT company, through a grant competition, to set up a central hub/database to hold all information from existing mutual exchange websites. This could cost between £240,000 and £350,000 although the exact cost will vary depending on the technical specification of the database and factors such as the difficulty implementing this. These costs could either be met by mutual exchange providers wishing to be involved in the scheme or it might fall to central government to provide the necessary funding; this detail has not yet been resolved.

This option would require a procurement exercise, which would invite tenders either from existing providers of mutual exchange services or specialist IT companies to develop a national service that social housing providers could sign up to. The costs of the successful tender for developing a hub or database to facilitate a national home swap scheme might have to be funded by the Department for Communities and Local Government. Running the procurement process might cost between £25,000 and £75,000, owing to the staff resources necessary to organise a bidding process and contract the service.

Potential risks associated with this approach include risks relating to procurement. Experience from previous procurement exercises suggest that it may be difficult for a central team to specify the requirement sufficiently closely to obtain the best service at the best price. In addition to such contractual difficulties, the level of competition between providers of mutual exchange services might be lower if government lets a single national contract every few years instead of allowing providers to continually compete for landlords' business.

In addition to the costs of setting up a central database there would be ongoing costs – estimated at between £75,000 and £100,000 per annum – owing to the need to operate and maintain the system. The total discounted cost of option 3C is estimated at between £1.5m and £2.1m over a 30 year period.

Providing that this option was also successful at increasing the number of mutual exchange moves it would also lead to some additional costs to social landlords, who would have to administer these. Details are provided above.

These costs remain uncertain for a number of reasons, including because the details of the proposal are still being worked up in consultation with external partners.

Benefits from alternative option (3C)

The main benefit of a central mutual exchange database, like the preferred option, is that it will provide tenants interested in swapping houses with national coverage - acting as a 'one stop shop' for mutual exchange. It will give existing tenants wishing to move through mutual exchange greater mobility and choice of the many properties available for exchange through the various mutual exchange service providers.

In common with the preferred option, this approach would make it easier and less time consuming for tenants to achieve mutual exchanges as most of the transaction could be achieved by logging in through a single database. As a result there are likely to be an increased number of moves, along with the accompanying benefits to tenants and landlords described for option 3B.

However, the overall net benefit of this option is likely to be significantly lower than the preferred option because of the higher costs of setting up and managing a system which is based on having a central database. This is the key issue which makes this approach a less favourable option.

Summary of costs and benefits

The preferred option (3B), which it is envisaged would require existing providers of web-based mutual exchange services to share their data on every property available for mutual exchange, is expected to generate greater net benefits because setup and ongoing running costs (incurred by providers or by government) are likely to be lower than setting up a central database. These costs may be absorbed by mutual exchange providers or passed on to social landlords and tenants that subscribe to the services.

The scale of benefits, in terms of increased mobility, is likely to be similar from both options and the benefits from facilitating more mutual exchanges are judged to outweigh the likely costs. There are also important non-monetised benefits associated with improving mobility within the social sector. For example, the work related benefits of introducing a national home swap scheme could be significant and overall monetised benefits could exceed costs in the central scenario if the policy enabled as few as 60-90 tenants to enter paid employment for a year (generating benefits of £1.3m). Increasing the number of mutual exchanges is also likely to bring significant benefits to tenants themselves e.g. enabling tenants to move closer to friends and family and reducing the number living in unsuitable conditions.

The scenarios for monetised benefits presented above imply that the equivalent annual net cost to business and the third sector⁷³ might be £10,000, £30,000 or £70,000 – although this is highly uncertain. Almost all of these costs are likely to be borne by Registered Providers of housing rather than providers of mutual exchange services, since costs of sharing data are estimated to be low in relation to the cost of administering additional moves that result.

With either option there would be significant distributional impacts for providers of mutual exchange services. These give rise to a risk associated with the proposals: namely that those providers of mutual exchange services who may stand to lose out from the changes do not behave as anticipated. Existing providers of mutual exchange services might refuse to participate in or obstruct the introduction of a national home swap scheme; they might also seek to obtain compensation from government for any lost earnings. These risks can be mitigated by engagement with providers.

It might be the case that a market led solution involving pooling of data is likely to cause less disruption, be more likely to work effectively, involve fewer security risks, have lower costs to government and avoid the risk of bad procurement, and give industry players more flexibility over how to run their businesses in future. This option might also encourage competition between providers based on the quality of the service they offer and attract new operators to enter the market. This could increase the level of choice available to landlords when deciding which service provider to sign up to and in turn help to keep prices for landlords down.

⁷³ See Annex 4 for a fuller explanation of equivalent annual net cost to business and the third sector.

Summary: Analysis and Evidence Homelessness Policy - Option 4B

Description: End homelessness applicants' right to refuse offers of suitable private sector housing and give local authorities more freedom to decide how best to use available social housing.

Price Base Year 2010	PV Base Year 2010	Time Period Years 30	Net Benefit (Present Value (PV)) (£m)		
			Low: £4,100m	High: £11,960m	Best Estimate: £6,760m

COSTS (£m)	Total Transition (Constant Price) Years	Average Annual (excl. Transition) (Constant Price)	Total Cost (Present Value)
Low	£0	£1.4m	£30m
High	£0	£7.8m	£140m
Best Estimate	£0	£4.1m	£80m

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

Local authorities that make use of the flexibility to bring the main homelessness duty to an end with offers of suitable private rented accommodation could incur costs of £30m-£140m (central scenario £80m) from providing incentives for private landlords to let to homeless acceptances.

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

Bringing more main homelessness duties to an end with offers of private rented accommodation means other households would be able to benefit from social housing. The change could have adverse distributional impacts for some homeless acceptances since rents in the private sector are higher than in the social sector and there is typically less security of tenure. Low income private rented households might also be adversely affected by increased competition for affordable private sector dwellings.

BENEFITS (£m)	Total Transition (Constant Price) Years	Average Annual (excl. Transition) (Constant Price)	Total Benefit (Present Value)
Low	0	£181m	£4,130m
High	0	£485m	£12,100m
Best Estimate	0	£279m	£6,830m

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

Local authorities could make savings of around £410m in the costs of homelessness administration (£130-£920m) and £490m in the costs of providing temporary accommodation (£300m-£790m). Government expenditure on housing benefit is likely to fall substantially as the need for costly temporary accommodation is reduced, potentially saving taxpayers between £3,700m and £10,390m (central scenario £5,930m).

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

Reduced need for temporary accommodation should benefit households accepted as owed the main homelessness duty (satisfaction with accommodation is likely to rise) and could improve work incentives for homeless acceptances. Giving local authorities greater discretion over how best to allocate social housing, in line with local circumstances and priorities, and increasing the number of social lettings allocated to other households in need on the housing waiting list (e.g. those living in overcrowded or otherwise unsuitable accommodation) could bring about significant benefits to the individuals who enjoy better housing outcomes. Wider economic and social benefits might also follow e.g. improvements in health outcomes and educational attainment. Changes in the type of households residing in social housing might also lead to housing benefit savings on top of those quantified above.

Key assumptions/sensitivities/risks

Discount rate (%)

3.5%

It is uncertain how local authorities will make use of greater flexibility and the estimates are highly sensitive to assumptions underlying the three scenarios. Offers of suitable private rented accommodation are assumed to be used to bring 33 / 59 / 76% of main homelessness duties to an end compared to around 7 per cent at present and this is assumed to significantly reduce the number of households in temporary accommodation (by 39,000 below baseline levels in the central scenario). Households in temporary accommodation are all assumed to be in receipt of housing benefit covering rents of £230 per week. Assumed rent levels in other tenures are set out in Appendix 2. Housing benefit savings are assumed to provide economic benefits, rather than a transfer, by cutting the amount of resources that need to be devoted to housing provision.

Impact on admin burden (AB) (£m):			Impact on policy cost savings (£m):	In scope
New AB: £0	AB savings: £0	Net: £0	Policy cost savings:	Yes/No

Evidence Base (for summary sheets) – Homelessness Policy

Description of policy options

Summary of key points:

- If households with a priority need for accommodation become homeless through no fault of their own then legislation places a duty on local authorities to secure suitable accommodation for them, providing they are eligible for assistance.
- Local authorities are restricted in the way they can bring this duty to an end because offers of suitable private rented accommodation can be refused without penalty; households may choose to wait for an offer of social housing instead.
- This can be unfair on other households waiting to access social housing since homeless acceptances may not need social housing but can effectively insist on it.
- It also puts a burden on taxpayers by resulting in a need for the provision of temporary accommodation, which is expensive for local authorities and carries higher Housing Benefit costs.
- The preferred option is to remove applicants' right to refuse offers of suitable private rented accommodation without penalty, allowing local authorities greater freedom in how to end the homelessness duty and how best to utilise social housing.
- Other options included strengthening the requirements for offers of private accommodation (capable of ending the duty), so as to make them more attractive, or excluding homeless acceptances from social housing. The former was rejected due to the difficulty of persuading private landlords to provide sufficiently strong offers and the latter would provide insufficient flexibility to respond to individual housing needs.

Background to the main homelessness duty

Under the homelessness legislation, local authorities must secure suitable accommodation for families with dependant children - and other groups who have a priority need for accommodation - if they are eligible for assistance and have become homeless through no fault of their own. This is referred to as 'the main homelessness duty'.

In 2009-10 just over 40,000 applicants were accepted by English housing authorities as owed the main homelessness duty, a reduction of around 70 per cent since the recent peak of 135,000 acceptances in 2003-04.⁷⁴ In around 75 per cent of cases the duty is brought to an end with an offer of a settled home that is social housing.⁷⁵

⁷⁴ DCLG, P1E Homelessness returns; Live Table 772

⁷⁵ DCLG, P1E Homelessness returns; Live Table 778

At the end of March 2010, there were just over 51,000 households in temporary accommodation.⁷⁶ The great majority will have been waiting for an offer of social housing that would bring the main homelessness duty to an end. From the homelessness data returns submitted by local authorities, it is estimated that, on average, homeless acceptances remain in temporary accommodation waiting for an offer of social housing for approximately three years in London and 11 months in the rest of England.

Problem under consideration

Local authorities have considerable flexibility in how to meet the immediate housing needs of people owed the main homelessness duty, but are very restricted in the way they can bring the duty to an end. Suitable accommodation in the private rented sector offered as a settled home that would end the duty ('qualifying offers'), can be refused without penalty (and the duty continues to be owed). The duty is brought to an end with acceptance of a private sector offer in only around 7 per cent of cases.

People owed the main homelessness duty can therefore effectively insist on being provided with temporary accommodation until offered social housing (and under current rules must be given reasonable preference for social housing). Evidence suggests this encourages some households to apply as homeless in order to secure reasonable preference and a guarantee of being offered social housing.⁷⁷ Around 21 per cent of social lets to new tenants are allocated to people owed the main homelessness duty,⁷⁸ many of whom will have been provided with expensive temporary accommodation while they waited for their offer.

Rationale for intervention

Giving local authorities the freedom to end the main homelessness duty by arranging an offer of suitable private rented accommodation will lead to fairer outcomes – both for households owed the duty ('homeless acceptances') and others on the waiting list for social housing. Not all homeless acceptances will require social housing and meeting their needs by securing an offer of private accommodation could free up social housing for people in greater housing need. In some cases this might lead to positive externalities by improving health and education outcomes amongst more needy households.

Changes are also needed to deliver better value for money for taxpayers. Temporary accommodation is very costly to provide and government expenditure on Housing Benefit could be lower if homeless acceptances were assisted into the private sector where rents are comparatively low. Reducing the need for temporary accommodation could also bring about savings for local authorities who meet the costs of securing, managing and maintaining it.

Policy objectives

The policy objective is to provide local authorities with greater flexibility to arrange offers of suitable accommodation in the private rented sector to meet the housing needs of people owed the main homelessness duty. Where authorities are able to meet those needs, and fully discharge the homelessness duty, with suitable private sector accommodation this will free up social lets for others in need and reduce the length of time homeless acceptances need to spend in costly temporary accommodation.

⁷⁶ DCLG, P1E Homelessness returns; Live Table 777

⁷⁷ Pleace et al (2008) *Statutory Homelessness in England: the experiences of families and 16-17 year olds*, DCLG

⁷⁸ DCLG, analysis of CORE data

Policy options

Option 4A – Do nothing

This option was rejected because the existing legislation allows people owed the main homelessness duty to insist on being offered social housing and refuse offers of suitable accommodation in the private rented sector for no reason (except where it is offered as temporary accommodation).

Option 4B – Remove the applicant’s right to refuse “qualifying offers” without penalty

This is the **preferred option** because it tackles the problem most directly. The current obstacle to the policy objective being met is applicants’ legal right to refuse private sector offers with no penalty and effectively insist on being allocated social housing. Removing this right would allow local authorities to provide an offer of suitable⁷⁹ private rented accommodation in order to end the duty, thereby allowing them to reduce the need for temporary accommodation and giving them the flexibility to determine how best to use the social housing that is available for let.

Option 4C – Strengthen the minimum requirements of the current “qualifying offer”

In practice, strengthening the ‘qualifying offer’ might be done by requiring that private rented accommodation is offered with longer minimum tenancy terms and greater protection for the tenant against eviction.

However **this option was rejected** because it is likely to be impractical and unlikely to be effective. It would be impractical because the stronger the offer required before the duty could be ended, the less likely private landlords would be prepared to offer accommodation on those terms. It is unlikely to be effective because, given a choice, most applicants are still likely to choose the potential lifetime tenancy offered by social housing over the more limited period of tenure offered by an assured shorthold tenancy in the private sector.

Option 4D – Exclude people owed the main homelessness duty from social housing

This option was rejected on the grounds that it would not deliver the policy objectives and would be impractical. Suitable accommodation in the private sector is unlikely to be available for everyone owed the main homelessness duty. This option would also have the adverse effect of taking away from local authorities any discretion over how best to meet housing needs, e.g. the option of allocating social housing where appropriate, which directly contradicts the policy objective.

The possibility of a non-legislative option was also considered, but none that was feasible or likely to be effective was identified.

⁷⁹ Suitability includes factors such as the size and condition of the accommodation, its location and affordability. The private tenancy offer must also be for a minimum term of 12 months.

Costs and benefits

Baseline for appraisal

The number of households accepted as owed the main homelessness duty to secure accommodation (homeless acceptances) has declined for each of the last six years and stood at around 40,000 in 2009-10.⁸⁰ It is uncertain how many homelessness acceptances would occur in future if legislation was not changed. For the purpose of analysing the impact of giving local authorities greater discretion to end the main homelessness duty with a private sector offer several illustrative scenarios are considered below (Table 19).

Table 19: Baseline numbers of homelessness acceptances per annum

Scenario	2010	2011	2012	2013	2014 onwards
Low	34,000	29,000	25,000	25,000	25,000
Central	40,000	40,000	40,000	40,000	40,000
High	40,000	40,000	46,000	53,000	61,000

- The low scenario assumes the recent decline in numbers of homeless acceptances continues, with acceptances reduced by 15 per cent per annum⁸¹ during 2010, 2011 and 2012, and remaining constant thereafter.
- The central scenario is for the number of homeless acceptances to stabilise at around 2009-10 levels.
- The high scenario assumes that numbers of homeless acceptances increase by 15 per cent per year for three years from 2012.⁸²

For simplicity, it is assumed that if the homelessness legislation was left unchanged the breakdown of initial housing outcomes for homeless acceptances would continue to be broadly the same as at present. These assumptions draw on data from the P1E Homelessness Returns and are set out in more detail in Table 20.

Table 20: Initial outcomes for households accepted as owed the main homelessness duty

Placed in Temporary Accommodation	No accommodation secured	Social Rented Sector	Private Rented Sector	Duty otherwise ended
60%	25%	10%	2%	3%

Further, it is assumed that in the baseline, the main homelessness duty owed to households that are placed in temporary accommodation or that do not have accommodation secured for them ('homeless at home') will continue to be ended in the same proportions as at present. Thus, 70 per cent of households leaving temporary accommodation, or who did not initially have accommodation secured for them, are assumed to accept an offer of social housing and 6 per cent are assumed to accept an offer of private rented accommodation ('qualifying offers').⁸³

⁸⁰ DCLG, P1E Homelessness Returns

⁸¹ The average percentage decline observed over the last 3 financial years (from 2006-07 to 2009-10).

⁸² There is a risk that the recent downward trend in homelessness acceptances might reverse, highlighted by the slight rise in acceptances observed in the second quarter of 2010.

⁸³ The balance of homelessness duties are brought to an end when an offer of social housing is refused, an assured tenancy is accepted, applicants cease to be eligible or are found to have become homeless intentionally, or they voluntarily cease to occupy temporary accommodation.

The analysis does not take account of the reasons why local authorities currently end the main homelessness duty in different ways or the possibility that these may change over time e.g. as the backlog of households in temporary accommodation reduces some local authorities might make more offers of social housing immediately.

The average length of stay in temporary accommodation is taken to be two years (an estimate made using P1E homelessness returns). In practice there are significant differences in the average duration of stay in temporary accommodation across regions, with these being much longer in London than the rest of England.

Changes anticipated from preferred option (4B)

It is anticipated that the legislative change would come into force in 2012. It would apply only to new applications made on or after commencement i.e. not to applications made before that date, even though a duty may still be owed to these households.

Changing household behaviour

In practice, giving local authorities the discretion to decide how best to bring the main homelessness duty to an end in individual cases is expected to have a behavioural affect on some households: it is anticipated that it would deter some people from applying for homelessness assistance where the principal incentive for their making an application was because this was perceived to be a guaranteed route into social housing. Previous research found that 6 per cent of a small sample of homeless acceptances applied as homeless because they perceived it to be the *only* route to social housing and a further 3 per cent did so because they thought it would be the *fastest* route.⁸⁴

- On the basis of this research it is assumed that in a central scenario, amending the legislation might therefore reduce acceptances through behavioural change, by around 10 per cent below baseline levels.
- The low scenario conservatively assumes a reduction in acceptances due to behavioural change of 5 per cent below baseline levels.
- The high scenario assumes a reduction in acceptances due to behavioural change of 15 per cent below baseline levels.

These assumptions for potential applicants' behaviour would result in the profiles of homeless acceptances set out in Table 21, below. For simplicity these assume that behavioural changes would have an immediate effect when the changes come into force in 2012. In reality, removal of the incentive to seek help under the homelessness legislation in order to access social housing is likely to take some time to impact on the number of homeless acceptances, for example because it may take time before the implication of the changes is widely understood.

Table 21: Estimated numbers of homeless acceptances per annum under the proposed change, by scenario

Scenario	2010	2011	2012	2013	2014 onwards
Low	34,000	29,000	23,000	23,000	23,000
Central	40,000	40,000	36,000	36,000	36,000
High	40,000	40,000	39,000	45,000	52,000

⁸⁴ Pleace et al (2008) *Statutory Homelessness in England: the experiences of families and 16-17 year olds*, DCLG

A quick comparison of Tables 19 and 21 reveals that there might be between 1,000 and 9,000 fewer homeless acceptances per annum from 2012 onwards (central case 4,000).

Local authorities' use of greater flexibility

There is no firm basis for anticipating how individual local authorities will use their greater flexibility to decide how best to end the homelessness duty. This will depend on local circumstances, including pressures on social housing and the characteristics of individual homeless acceptances; whether, for example, accommodation in the private rented sector is available on the terms required and is suitable for them given their circumstances. For example, the supply of private rented dwellings that have landlords willing to let to households in receipt of housing benefit might limit the use of private sector offers to bring the duty to an end.⁸⁵

Given the uncertainty around how local authorities might respond to the legislative change, three sets of behavioural assumptions are used, in combination with the scenarios for homeless acceptances presented above, to indicate the potential proportion of duties that may be brought to an end with an offer of suitable private rented accommodation from 2012 onwards:

- In the **low scenario**, 20 per cent of homeless acceptances are assumed to have the duty ended with a private sector offer right away (rather than 2 per cent in the baseline), with relatively smaller shares of households being placed in temporary accommodation or not secured accommodation.
- Of those acceptances that are provided with temporary accommodation (or have no accommodation secured), 20 per cent are ultimately assumed to have the duty ended with an offer of private accommodation (compared to 6 per cent in the baseline). Social housing would be allocated to 56 per cent of this subset of homeless acceptances, rather than 70 per cent in the baseline.
- The average duration of stays in temporary accommodation is assumed to fall to six months.
- A greater number of duties being ended with an offer of private rented accommodation is assumed in the **central scenario**, with 40 per cent of households having the duty ended with a private sector offer immediately after being accepted as owed the main duty.
- 40 per cent of acceptances are assumed to have the duty ended with an offer of accommodation in the private rented sector after leaving temporary accommodation (or not being secured accommodation). The proportion of this group of households having duties ended with an allocation of social housing would fall to 36 per cent.
- The average duration of temporary accommodation is assumed to fall to three months as a result.
- In the high scenario offers of private sector accommodation are assumed to end the duty for 60 per cent of households once they are accepted as owed the main homeless duty.
- 60 per cent of acceptances are assumed to have the duty ended with an offer of accommodation in the private rented sector after leaving temporary accommodation (or not being secured accommodation). The proportion of this group of households having duties ended with an allocation of social housing would fall to only 14 per cent of homeless acceptances.

⁸⁵ Rugg J. and Rhodes D. (2008) *The Private Rented Sector: its contribution and potential*, DCLG

- The average duration of stays in temporary accommodation is assumed to fall to around one month.

Impacts on housing outcomes

Depending on how local authorities respond to the greater flexibility over how to end the main duty, changes to the legislation could impact on homeless acceptances (and their household members) from 2012 onwards, although it may take time for some local authorities to amend their policies.

This section provides a highly stylised picture of impacts on key housing outcomes, based on the scenarios and behavioural assumptions outlined above. It does not take account of numerous factors that may, in practice, affect the way that local authorities respond. For example, variation in the number of social lets becoming available for allocation to homeless acceptances could enhance or restrict the ability of authorities to bring the homelessness duty to an end in this way.

One effect of the policy is likely to be a reduction in the number of households living in insecure and expensive temporary accommodation. Table 22 shows how the number of households living in temporary accommodation might decrease. In the low scenario, for example, there might be 24,000 fewer households residing in temporary accommodation from 2013 onwards than if the legislation were unreformed. This is because more homeless acceptances might have been made offers of suitable private rented accommodation instead.

Table 22: Estimated changes in the number of households living in temporary accommodation, by scenario

Scenario	2010	2011	2012	2013	2014	2015 onwards
Low	0	0	-9,000	-24,000	-24,000	-24,000
Central	0	0	-15,000	-39,000	-39,000	-39,000
High	0	0	-21,000	-52,000	-59,000	-64,000

The estimated reduction in the number of households in temporary accommodation might be less than this because at some point in the future – particularly in the longer term – the backlog of households residing in temporary accommodation might be reduced or eliminated in the baseline. This would likely give local authorities more scope to meet the housing needs of future homeless acceptances with an immediate offer of social housing.

Table 23, below, shows how many more homelessness duties might be ended with an offer of private rented accommodation.⁸⁶ These figures include households being offered private accommodation immediately after acceptance and those who accept a private rented sector offer after a brief stay in temporary accommodation. In the low and central scenarios it is estimated that the peak number of duties brought to an end with a private rented sector offer might occur in the first two years after the policy takes effect. This is because the same proportion of households that applied for assistance before commencement are assumed to receive offers of private sector accommodation after a two year period spent in temporary accommodation as currently happens (6%), in addition to private sector offers being made to a greater proportion of acceptances after the commencement date.

⁸⁶ These scenarios illustrate the effect of different numbers of homeless acceptances and a range of local authority responses to the new flexibility

Table 23: Estimated increases in the number of homelessness duties ended with a private rented sector offer, by scenario

Scenario	2010	2011	2012	2013	2014	2015	2016 onwards
Low	0	0	7,000	7,000	6,000	6,000	6,000
Central	0	0	20,000	20,000	18,000	18,000	18,000
High	0	0	29,000	33,000	36,000	36,000	35,000

Table 24, below, presents estimates of the changes in the number of homelessness duties ended with offers of social housing. These suggest that in 2012 and 2013 – the years immediately following commencement – more duties would be ended with social housing offers than if the homelessness legislation was left unreformed. This arises due to the simplistic modelling assumptions that those households who had been in temporary accommodation for several years would be offered social housing, whilst at the same time as quicker offers would be made to those households that are accepted after the commencement date. In practice it might not be possible to temporarily increase the number of social lettings allocated to households owed the main homelessness duty due to other pressures on social housing, so the reduction in numbers in temporary accommodation might take longer to materialise.

Table 24: Estimated changes in the number of homelessness duties ended with an offer of social housing, by scenario

Scenario	2010	2011	2012	2013	2014	2015	2016 onwards
Low	0	0	9,000	9,000	-8,000	-8,000	-8,000
Central	0	0	6,000	6,000	-21,000	-21,000	-21,000
High	0	0	1,000	1,000	-30,000	-34,000	-39,000

It is likely that in the longer term, the change would substantially increase the amount of social housing available to be let to other groups of household. In the central scenario, for example, it might be possible to use an additional 21,000 social lettings per annum to meet the needs of other groups of households in need on the housing waiting list.

Over the 30 year appraisal period, local authorities might bring 170,000 more homelessness duties to an end with offers of private rented accommodation rather than social housing in the low scenario (an average of 6,000 per annum over the appraisal period). In the central scenario 520,000 more households might be offered private than social housing (17,000 households per year on average), and in the high scenario this might be used on 980,000 more occasions (average of 33,000 households each year). There is therefore likely to be a significant increase in the number of social dwellings available to be let to other groups of households.

Chart 7: Estimated cumulative impact on housing outcomes of homeless acceptances of the proposed legislative change, central scenario

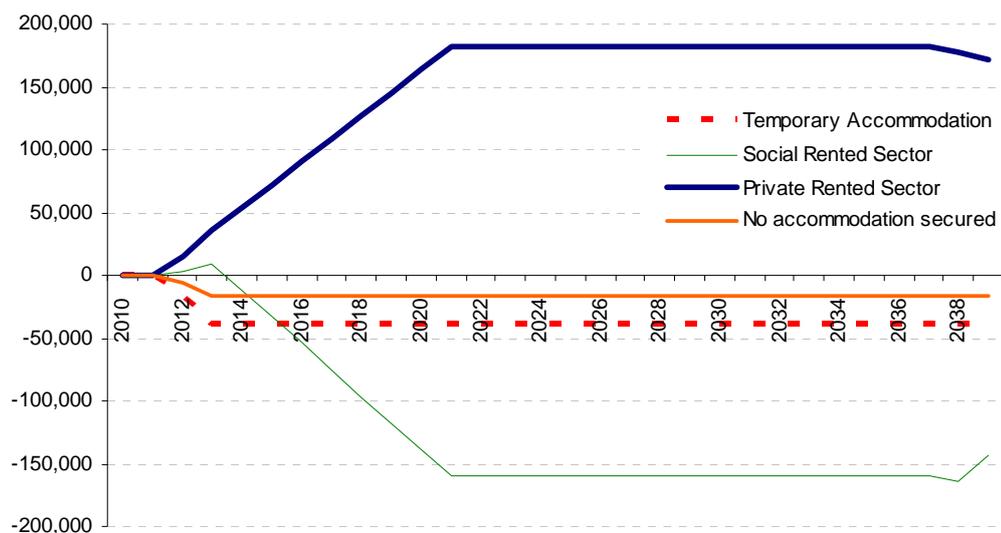


Chart 7 illustrates how, in 2012 and 2013, the number of homelessness acceptances living in temporary accommodation or remaining ‘homeless at home’ is expected to decline before stabilising at a lower level (orange and red lines; figures in Table 22). The number of homeless acceptances living in the private rented sector is estimated to rise steadily over time as the number of duties ended with a private sector offer increases (blue line; figures in Table 23).

Chart 7 only considers housing outcomes for 20 years after households are accepted as owed the main homelessness duty so the number of additional households living in the private rented sector levels off after 2030. The change in homeless acceptances living in the social sector is expected to mirror this, apart from an initial increase in numbers of social renters (which results from the simplistic modelling assumption that households will be able to leave temporary accommodation earlier than they would otherwise have done). These changes are likely to be matched by opposite impacts on the housing tenures of other groups of households i.e. social housing would increasingly be occupied by households whose needs fell within the other statutory ‘reasonable preference’ categories.

Benefits

To local authorities

Enabling local authorities to reduce the need for temporary accommodation is likely to generate savings to local government since managing and maintaining a stock of properties for this purpose is a costly activity. These savings are estimated using statistical returns on the cost to local authorities of providing temporary accommodation over and above the costs met by rental payments (partly met by central government and partly by homeless acceptances themselves). These show that, excluding the costs of administrative activities, net current expenditure on homelessness by local authorities in England totalled £49m in 2008-09.⁸⁷ This comprises costs of hostels, bed and breakfast accommodation, leasehold dwellings and other temporary accommodation over and above those rental costs that are met by taxpayers and homeless acceptances (through the housing benefit system and rental payments respectively).

There were 64,000 households in temporary accommodation at the end of March 2009, which suggests the average net cost to local authorities of providing homeless acceptances with

⁸⁷ DCLG, *Local Authority Revenue Expenditure and Financing England 2008-09*, Annex A7: Revenue Outturn Housing Services, www.communities.gov.uk/documents/statistics/xls/14013543.xls

temporary accommodation is around £760 per case each year. Taking this as a guide to the potential savings that local authorities could realise from reducing the need for temporary accommodation, it is estimated that over 30 years they might save £301m in the low scenario, £490m in the central scenario, or £790m in the high scenario (ref. Table 25). This estimate excludes costs of temporary accommodation that are met by central government funding via the housing benefit system.

As mentioned above, behavioural changes could mean that fewer households apply for homelessness assistance from local authorities as a result of the proposed change. This could yield savings in administration of the homelessness legislation by local authorities. With fewer applications, local authorities might benefit from reduced expenditure on costs such as staff, office overheads and legal advice. Local authority returns indicate that the net cost of homelessness administration totalled £231m in 2008-09,⁸⁸ which equates to around £2,000 per acceptance on average. In practice some of these costs may have been incurred through the provision of non-statutory assistance to households at risk of homelessness, but assuming that savings of £2,000 could be realised from a reduction in applications dealt with under the homelessness legislation, savings to local authorities might total £410m over 30 years in the central scenario (between £126m and £916m).⁸⁹

Total benefits to local authorities are set out in Table 25, below, broken down by the source of benefit.

Table 25: Estimated benefits to local authorities from changing homelessness legislation, £m

Scenario	Savings in provision of temporary accommodation	Savings in homelessness administration	Total savings
Low	£301	£126	£426
Central	£490	£410	£900
High	£790	£916	£1,706

To households and society

Fewer applications for homelessness assistance due to behavioural changes would also reduce pressures on social housing. Local authorities would be able to allocate a greater number of social dwellings to other households in need, in the other reasonable preference categories (in line with local lettings policies). This could benefit, for example, those living in overcrowded or otherwise unsuitable accommodation.

Some local authorities may use these additional social lettings to reduce the backlog of households in temporary accommodation, particularly in the early years following the proposed change. Other local authorities might attach greater priority to meeting the housing needs of other applicants on the housing waiting list and in future an increasing proportion of the additional social lettings are likely to be used for this purpose. This could lead to a significant reduction in the number of households on the waiting list with unmet housing needs, bringing significant non-monetised benefits to these households who would enjoy better housing outcomes. Reducing housing need for these households could also bring wider economic and social benefits that have not been quantified here. For example, improvements in health outcomes and educational attainment have been linked to property conditions.⁹⁰

Reducing of the need for temporary accommodation is likely to benefit homeless acceptances, although it has not been possible to quantify this benefit. Research finds that families living in temporary accommodation were markedly less satisfied with their accommodation than those

⁸⁸ Ibid.

⁸⁹ Wage costs are set out in the common assumptions section of the Impact Assessment.

⁹⁰ Friedman D. (2010) *Social impacts of poor housing*, Ecotec

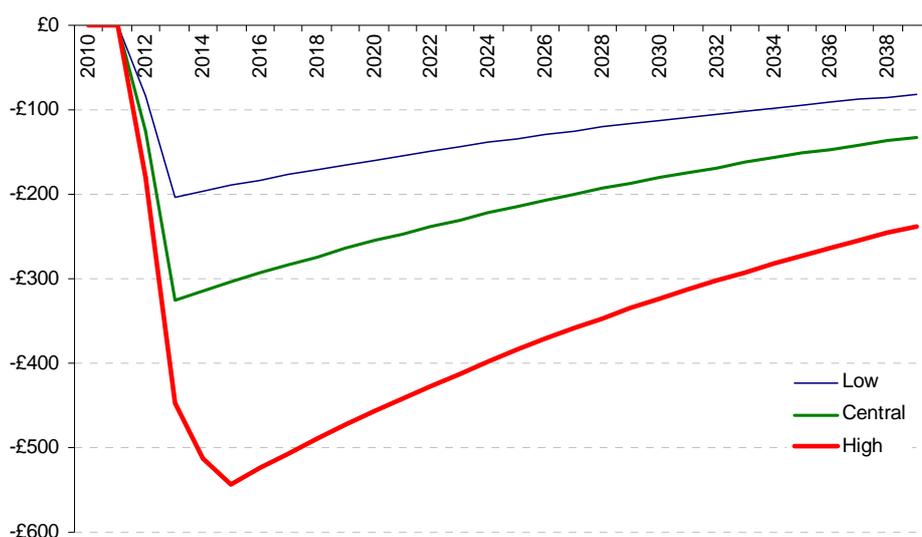
that had been provided with settled housing, although this still tends to be perceived as an improvement on previous living arrangements.⁹¹ Families living in temporary accommodation for over one year were very often frustrated at the length of wait for settled housing. Households in London are most likely to benefit from reducing the use of temporary accommodation since 75 per cent of households in temporary accommodation reside in the Capital.

Wider economic and social benefits could include more households taking-up paid employment. Around three quarters of families in temporary accommodation are in the bottom income quintile and most are in receipt of benefit support.⁹² Combined with the relatively high rental cost of temporary accommodation, the benefits system can contribute to the unemployment and poverty ‘traps’ i.e. households face the prospect of being financially little better off from earning more. If fewer households face these disincentives to work then employment amongst homeless acceptances could increase. This benefit has not been monetised due to uncertainties estimating the effect that altering work incentives will have on household behaviour.

To government

Reduced need for temporary accommodation could also lead to a reduction in government expenditure on housing benefit, even after accounting for greater expenditure in respect of other accommodation provided to homeless acceptances. The potential savings are illustrated by Chart 8, which is based on the same scenarios for reductions in temporary accommodation as Table 22. As noted above, costs for temporary accommodation tend to be higher than settled accommodation, linked to the different types of provision that are being accessed. Temporary accommodation is typically leased private sector accommodation managed by a housing association, local authority or managing agent where the costs involved with the temporary letting (i.e. leasing and management costs) are factored into rents set. Management costs tend to be higher, there is often a higher incidence of void periods and additional management and maintenance may also arise as a result of higher turnover rates. The cap on housing benefit paid in respect of temporary accommodation therefore includes an allowance of £40-60 per week to account for additional management and maintenance costs.⁹³

Chart 8: Scenarios for change in Housing Benefit expenditure per annum, £m



⁹¹ Pleace et al (2008) *Statutory Homelessness in England: the experiences of families and 16-17 year olds*, DCLG

⁹² *Ibid.*

⁹³ Housing benefit for households in temporary accommodation is capped at 90% of the relevant Local Housing Allowance rate plus an allowance of £40-60 per week.

Over 30 years the net exchequer saving could amount to £6bn in the central scenario (£3.7bn in the low scenario and £10.4bn in the high scenario). Savings in housing benefit would increase for up to three years after commencement in 2012 (high scenario) as fewer and fewer households remain in temporary accommodation, relative to the baseline. The gradual reduction in the value of savings which is shown to occur in future is attributable to the effect of discounting.⁹⁴

The estimates assume that all households in temporary accommodation receive full housing benefit, at an average cost of c.£230 per week, and that 100% / 75% of homeless acceptances qualify for full housing benefit when residing in the private/social rented sectors.⁹⁵ The analysis does not consider the impact that further reductions in the backlog of households in temporary accommodation would have on local authority ability to meet the needs of homeless acceptances in the baseline so actual savings might be less than estimated here.

Housing benefit costs/savings are not typically included in economic analysis given that housing benefit payments generally represent a transfer from one part of society to another – in this case, the tax payer to the landlord.⁹⁶ However, given the higher costs (and hence inefficiencies) associated with temporary accommodation savings in housing benefit expenditure on temporary accommodation **are** included in the economic analysis; they are assumed to provide economic benefits. These economic benefits arise by improving the way resources are used to provide housing services, rather than simply transferring resources from landlords to taxpayers. The rationale for this is that providing temporary accommodation is an inefficient way of housing people: temporary accommodation costs significantly more than private or social rented housing, as reflected in rent levels. Relatively fast turnover of households⁹⁷ is likely to contribute to higher void rates in temporary accommodation than for other types of housing (i.e. properties are empty more often) and local authorities might also over-estimate potential homelessness needs when procuring dwellings – in order to avoid placing homeless acceptances in hostel or bed and breakfast accommodation. Other reasons why temporary accommodation is more expensive than other forms of housing include time involved in setting-up and administering leasing arrangements, and higher management and maintenance costs (e.g. properties might be damaged more often if deposits are not paid and/or tenants do not have a long-term interest in upkeep).

Reducing the use of temporary accommodation is expected to avoid these sources of cost and deliver economic benefits. However, it is possible that a proportion of the housing benefit savings to taxpayers might actually be a transfer away from the landlords who own the dwellings rather than efficiency savings, i.e. the housing benefit savings resulting from a reduction in temporary accommodation partly reflects an efficiency saving because temporary accommodation is more expensive than alternative housing options, but that these savings also partly reflect a transfer from one part of society to another. This means the figures presented here are could over-estimate the overall economic benefit of reducing use of temporary accommodation.

In either case, reducing expenditure on housing benefit will decrease the deadweight loss to the economy associated with financing government activities (commonly referred to as the social opportunity cost of exchequer finance or SOCEF). In common with most other cost-benefit analyses, an estimate of this beneficial effect is not included in this Impact Assessment. Nevertheless it should not be overlooked in assessing the merits of the policy; estimates from

⁹⁴ Costs and benefits are expressed in present value terms to allow ready comparison across different time periods; this follows HM Treasury Green Book appraisal guidance.

⁹⁵ See common assumptions section of the Impact Assessment for more information on rents.

⁹⁶ Since a benefit to one party is exactly offset by a cost to others. Such transfers may, however, merit consideration due to their distributional implications.

⁹⁷ Almost 50% of households leaving temporary accommodation in 2009 had been there less than 6 months. DCLG P1E Homelessness Returns.

international studies indicate that the benefit could amount to 20-30 per cent of the value of net financial flows, or £740m - £3.1bn.⁹⁸

There will be other housing benefit impacts as a result of fewer homeless duties being ended with offers of social housing and more becoming tenants in the private rented sector. Average rents in the private rented sector are higher than those for social housing so housing benefit payments to households living in the former tenure will tend to be higher.⁹⁹ The impact on housing benefit paid to homeless acceptances will depend on how many qualify for housing benefit and the length of time that they receive benefits. Both are subject to a large degree of uncertainty.

Accommodating a greater number of homeless acceptances in the private rented sector will enable other households to be allocated social housing. Many of this group of households are likely to have low incomes and be in receipt of benefit support. It is likely that, without the proposed change, some of these households would continue to live in the private rented sector and receive higher housing benefit payments.

The overall exchequer impact will depend to what degree the change in benefit payments to homeless acceptances is offset by the change in benefit payments to the households that are able to access the social rented sector as a consequence of the proposed change. Internal analysis of the household characteristics of different groups of households suggests that reducing the number of social lettings allocated to homeless acceptances *does* have the potential to reduce exchequer costs. However, there is too much uncertainty over changes in the characteristics of households living in the social and private rented sectors over a 30 year period to be able to quantify the overall housing benefit impact of the reforms.

As a guide to the magnitude of potential impacts, we tentatively estimate that if the number of homeless acceptances allocated social housing was reduced by 21,000 (as in the central scenario) then overall expenditure on housing benefit might fall by £6m in a single year alone. In the low scenario, a reduction of 8,000 homeless acceptances being allocated social housing in a given year might lead to housing benefit savings of £2m in that year alone and in the high scenario a reduction of 30,000 homeless acceptances might lead to housing benefit savings of £9m.

The exchequer impact will also be affected by any behavioural impacts that follow from ending more homelessness duties with a private sector offer. For example, this change might increase the proportion of homelessness acceptances who are in work, if it leads to changes in attitudes towards paid employment. No estimate has been made of the potential benefits of any such cultural shift.

Costs

To households and society

Some homeless acceptances may be adversely affected by the proposed change:

1. On average rents are higher for private than social rented housing. Some homeless acceptances are likely to face a higher rent than if allocated a social tenancy. In order for local authorities to end the homelessness duty with an offer of private housing though, the

⁹⁸ Department for Transport (2006) *Guidance on Value for Money*
www.dft.gov.uk/about/howthedftworks/vfm/guidanceonvalueformoney

DWP (2010) *The Department for Work and Pensions Social Cost Benefit Analysis Framework: Methodologies for estimating and incorporating the wider economic and social impacts of employment in cost-benefit analyses of employment programmes*, <http://research.dwp.gov.uk/asd/asd5/WP86.pdf>

⁹⁹ See the common assumptions section for further details of rents used in the analysis.

accommodation must be affordable. Eligible households will also be able to claim housing benefit in accordance with the Local Housing Allowance. Moreover, without the proposed change, most homeless acceptances would be placed in temporary accommodation for a period, with rents typically higher than market rents in the private rented sector.

2. Homeless acceptances that are offered private rented accommodation will typically have less security of tenure than they would have received in the social sector.

Although some homeless acceptances may be offered accommodation that is not in their preferred sector, there would be no net change in the availability of social housing as a result of the proposal – only differences in the categories of household allocated social lettings – so the impact is likely to be largely distributional. There is little evidence that private rented accommodation is of lower quality than social housing, e.g. from reported levels of household satisfaction,¹⁰⁰ and outcomes are likely to depend on individual circumstances rather than varying systematically across tenure. Perceived adverse impacts for some households would be offset by real benefits for others in need on the housing waiting list who will stand a greater chance of obtaining social housing and with less time to wait.

Another distributional impact might occur if placing more homeless acceptances in the private rented sector reduces the pool of private rented properties available to other low income households. This could adversely affect those who are not entitled to reasonable preference for social housing and do not qualify for other housing assistance from local authorities e.g. if competition for properties resulted in rent inflation.

To local authorities

Local authorities are likely to incur costs when arranging offers of private rented sector accommodation to end the homelessness duty. Costs could result from the need to make incentive payments, and offer deposit guarantees, to landlords in order to persuade them to let dwellings to homeless acceptances. In the central scenario this cost might total £76m over the appraisal period, assuming that local authorities provided rent guarantees in respect of 80 per cent of the private sector offers they make as a result of this proposal. In the low scenario costs might be £25m and in the high scenario they could be £141m. These estimates assume deposits are equal to eight weeks rent¹⁰¹ and that the claim rate on guarantees is 20 per cent (i.e. one in five guarantees must be paid out). However, local authorities will take these costs into account when choosing whether to use the new flexibility, and will weigh the costs against the likely significant savings.

Costs to local authorities might also result from the need to maintain relationships with, and accredit, landlords and to provide tenants with a degree of support – both financial and advisory – to sustain tenancies. However, it is possible that these activities could be carried out within additional staffing resources and these costs have not been quantified.

There is a risk that ending the homelessness duty with accommodation in the private rented sector could lead to ‘repeat’ homelessness in a small number of instances, with costs for local authorities as well as households. However tenancies arranged in the private rented sector are generally expected to be allowed to run on, and the proposal would put in place a protection so that in a case where the main homelessness duty has been ended with an offer of accommodation in the private sector, the homelessness duty would recur if the applicant became homeless again within a period of two years through no fault of his or her own (and was still eligible for assistance).

¹⁰⁰ DCLG, English Housing Survey 2008-09 Household Report

¹⁰¹ Average rents data are given in the common assumptions section.

Summary

The monetised costs and benefits of amending the homelessness legislation are summarised in Table 26, below, by whether they accrue to local authorities or central government. The estimates of benefits take account of savings local authorities could make in the costs of homelessness administration and providing temporary accommodation as well as the likely reduction in central government expenditure on housing benefit from a reduced need for temporary accommodation. The only source of cost that is monetised is the expense that might be incurred by local authorities that offer incentives for private landlords to let accommodation to homeless acceptances.

Table 26: Estimates of costs and benefits of discharging the homelessness duty into the private rented sector in different scenarios, £m

Scenario	Benefits			Costs	Net present value
	To local authorities	To central government	Total	To local authorities	
Low	£430	£3,700	£4,130	£30	£4,100
Central	£900	£5,930	£6,830	£80	£6,760
High	£1,710	£10,390	£12,100	£140	£11,960

The overall net present value of amending the homelessness legislation is expected to be positive in each of the scenarios. Large net benefits are expected to accrue to both local authorities and central government, ultimately benefiting taxpayers.

A number of other impacts are excluded from this assessment since they could not be monetised. These must also be taken into account in judging whether the change to homelessness legislation is likely to improve social welfare.

Local authorities would have more discretion over how best to allocate social housing, in line with local circumstances and priorities. Ending the main homelessness duty with offers of suitable accommodation in the private rented sector in more cases and removing the incentive for some households to apply for homelessness assistance in order to obtain social housing, are both likely to increase the number of dwellings available to be let to other households in need on the housing waiting list e.g. those living in overcrowded or otherwise unsuitable accommodation. This could bring about significant benefits for these households (who would enjoy better housing outcomes) and bring wider economic and social benefits, e.g. improvements in health outcomes and educational attainment, while maintaining a safety net that ensures that people in the priority need groups who become homeless though no fault of their own will be provided with suitable accommodation. Changing the categories of households that reside in the social and private rented sectors might also generate housing benefit savings to government over and above those quantified above.

The need for temporary accommodation is likely to be significantly reduced if the proposal is enacted, which could benefit homeless acceptances (satisfaction with accommodation could rise). Reducing the need for temporary accommodation could also improve work incentives for homeless acceptances because households will need to receive less housing benefit support in other tenures where rents are lower.

A number of distributional impacts are also likely to result from the reform. More homeless acceptances are expected to reside in the private sector where rents are typically higher and there is less security of tenure. Other low income households that rent privately might also be adversely affected by the reforms, since they could face stiffer competition for affordable private sector dwellings to rent.

Evidence Base – Financial incentive schemes for home ownership

Background, problem and rationale for intervention

Home ownership incentive schemes have a role to play in facilitating moves out of the social rented sector by existing tenants. This frees up social rented accommodation and assists social tenants to buy a home. However, currently some housing association tenants are unable to benefit.

Non-profit Registered Providers, such as housing associations, are currently precluded (under section 122 of the Housing and Regeneration Act 2008) from making any gifts, including a cash incentive or other financial assistance to their tenant to help them buy a home, in circumstances where the tenants are also members (i.e. share holders in most cases) of the organisation.

In addition to the 'do nothing' option of leaving legislation unchanged, one policy option was identified:

Option 5B

A technical amendment to legislation will help ensure fairness by not precluding tenant members from incentive schemes which seek to facilitate moves out of the social rented sector and to release accommodation for re-letting. Only one option for achieving this policy objective was identified due to the specific nature of the issue at hand.

Costs and benefits

This is an equity based intervention which will effectively mean that all social tenants have access to the same offers, such as those schemes set up to incentivise home ownership. Such incentive schemes can generate benefits by freeing up social stock for allocation to more needy households and helping to realise social tenants' ownership aspirations.

The legislative amendment is, however, unlikely to increase the volume of tenants going through these voluntary schemes into home ownership. Rather it is likely to improve "fairness" in that in future offers will be available to a wide range of tenants. As a result the costs and benefits are likely to be confined to distributional impacts.

The level of detail presented here is restricted in light of the technical nature of this amendment. Further analyses of the impacts of home ownership incentive schemes are expected on a case by case basis.

Evidence Base (for summary sheets) – Summary of overall package of reforms

This section of the Impact Assessment considers the five preferred policy options as a package, bringing together key points from the individual analyses of impacts and highlighting potential interactions between the options.

The overall costs and benefits expected from the preferred policy options are summarised below. This forms our best assessment of the overall net benefits likely to follow from the package of reforms, as set out on the overall summary analysis and evidence page (see p.3).

Cumulative impacts of the preferred options

Mobility

The package of preferred policy options is expected to lead to much greater mobility amongst social tenants than in the baseline (if no changes were made to the social housing system).

Many more social tenancies are likely to be made on a flexible basis following reforms to the legislation and standards governing tenure (option 2B). There is considerable uncertainty around the speed and scale with which social landlords will shift from granting 'lifetime' secure/assured tenancies to flexible tenancies, but scenario analysis shows that over 30 years this could lead 770,000 more social tenants to make the move into different properties – either within the social sector or into private sector accommodation. The estimated number of additional moves ranged from 230,000 in the low scenario to 1.8 million in the high scenario. Reforms to tenure will only affect new social tenants.

Existing social tenants are also expected to become more mobile. Changes to the allocations framework will provide social landlords with the flexibility to prioritise transfers within the social rented sector (option 1B). The impact of this enabling measure will depend on decisions taken at a local level based on individual circumstances. For example, transfers might be approved if they improve tenant wellbeing or enable landlords to make better use of stock. The number of additional moves within the social sector might conceivably be 14,000 - 64,000 per annum on the basis of current lettings trends. Existing tenants could have even more opportunities to move as a result of tenure reforms, which will raise mobility amongst new social tenants and therefore increase the number of dwellings available for re-let.

Introducing a national home swap scheme (option 3B) would also mean existing social tenants are better able to arrange to move within the social sector. Numbers of mutual exchanges are likely to rise as a result of giving more tenants access to details of all potential swaps. It will be down to social tenants to decide when a home swap is best for them so it is not known how many additional mutual exchanges will take place, but the number might range from 2,200 to 11,000 per year.

In future it would be possible for tenant members of housing associations to benefit from schemes that incentivise home ownership (option 5B). This would put them on an equal footing with other social tenants when applying for assistance to move into private sector accommodation.

The overall package of preferred options is therefore likely to bring about a substantial increase in mobility within the social sector. Some of the moves estimated to occur as a result of the different policy options might be substitutes for others – not all will be truly additional. For example, between 20-40 per cent of the extra mutual exchange moves, which are arranged by

tenants, might occur in place of transfer lettings, which are arranged by social landlords. Similarly if social tenants move more frequently as a result of flexible tenancies coming to an end then there might be less demand for transfer lettings or mutual exchanges for other purposes. Nevertheless the rate of mobility amongst households in the social rented sector is likely to rise significantly relative to the baseline.

Best use of social housing

The package of policy options would provide local authorities and social landlords with a range of greater freedoms, enabling them to make better use of social housing than in the baseline by taking greater account of individual needs and local circumstances when making decisions, e.g. over what terms to allocate it to an individual.

Amending the homelessness legislation (option 4B) would give local authorities greater freedom over how to bring the main homelessness duty to an end, leaving them to decide how best to allocate available social housing in line with their allocations policies. In many cases authorities would continue bringing the main homelessness duty to an end with offers of social housing but there would likely be a shift towards providing homeless acceptances with offers of suitable private rented accommodation. Scenarios suggest that over a 30 year period 520,000 more households might be offered private rented accommodation rather than social housing (with a likely range of 180,000 to 980,000). There is therefore likely to be a significant increase in the number of social dwellings available to be let to other groups of households, in line with local lettings policies.

Reforms to tenure in the social sector (option 2B) would give social landlords the ability to support more needy households at the expense of those that no longer require support. Over the next 30 years the use of flexible tenancies could create between 200,000 and 1.4 million additional lettings as a result of the use of flexible tenancies (central scenario: 500,000). Increasing the availability of social housing and giving landlords greater freedoms to determine how it is put to use should improve housing outcomes and could lead to savings in housing benefit expenditure. Social landlords will have the flexibility to promote fairness; to ensure that help and support are focussed on those who need it most when they need it most; and to build strong and cohesive communities.

Being able to prioritise transfer lettings even when tenants do not qualify for Reasonable Preference for housing (option 1B) could make it easier for social landlords to make more efficient use of the stock, for example by supporting downsize moves by existing tenants. This would enable landlords to free-up larger properties and allow them to tackle overcrowding amongst social tenants and amongst households on the waiting list. It could also have the effect of cutting the cost to government of Housing Benefit payments.

Local authorities would also have greater freedom over how to operate housing waiting lists (option 1B). An increasing number of authorities are expected to respond by placing additional restrictions on eligibility for joining housing waiting lists but it is not possible to predict exactly how many authorities will adopt waiting list policies or what new criteria they might adopt. The number of households on waiting lists for social housing is highly likely to fall as a result of authorities adopting more restrictive criteria. The allocation of social housing will continue to be determined with regard to statutory Reasonable Preference guidance.

Allowing local authorities to set their own rules for waiting lists could see them making, and communicating, decisions on access to social housing earlier than they would otherwise have done so. These might be better understood by local residents, should help to address public perceptions that allocations systems are unfair and avoid creating unrealistic expectations of accessing social housing. This could encourage people with little change of accessing social housing to do more to explore other options in the housing market.

As well as reducing the size of waiting lists, giving local authorities the flexibility to place new restrictions on who is eligible to register for social housing could contribute to changing public perceptions of the sector. For example, there could be growing recognition that social housing is often best used to provide temporary support to households in need. Together with other aspects of the policies, particularly the rise in mobility within the social sector, this could lead to a cultural shift in attitudes towards social housing, with profound implications. It is argued that allocating social housing for life and the difficulty of moving within the sector contribute to a culture of welfare dependency amongst some tenants.¹⁰² This might change if social housing comes to be seen as a time-limited offer of support rather than an entitlement, and the reforms foster a greater sense of personal responsibility amongst tenants. Changing behaviour could see benefits to individuals and communities, e.g. through more tenants entering paid employment.

Summary of costs and benefits

Benefits

As well as contributing towards a fairer future for social tenants and those in the community the package of reforms is intended to promote fairness to the taxpayer – reducing the amount of public money spent on meeting housing needs by making better use of the existing stock of social housing.

By far the largest saving in government expenditure is likely to come from providing local authorities with the flexibility to end the main homelessness duty with suitable offers of private rented accommodation (option 4B). This is likely to cut usage of temporary accommodation and reduce the number of homeless acceptances entering social housing. The former is expected to yield significant savings to local and central government since temporary accommodation is more costly than other types of housing, whilst the latter could deter some households from applying to local authorities for assistance under the homelessness legislation, thereby cutting administration costs. Scenario analysis suggests that over 30 years local authorities could realise savings of around £490m in the costs of providing temporary accommodation (between £300m and £790m) and save £410m in homelessness administration expenditure over the same period (between £130m and £920m). Central government expenditure on housing benefit is likely to fall substantially as costly temporary accommodation is used less, potentially saving taxpayers £5.9bn over 30 years (between £3.7bn and £10.4bn). This is assumed to deliver economic benefits by improving the efficiency with which resources are used to provide housing services.

Enabling social landlords to prioritise transfer lettings to existing tenants for stock management purposes could lead to social housing being put to better use, e.g. through reducing the number of households occupying properties with more bedrooms than they require and reallocating these to more needy households. As well as benefits for the households concerned, this could generate savings in housing benefit expenditure since it is more costly to accommodate larger households in the private than social sector. Over 30 years the reduction in housing benefit expenditure could total £76m (between £36m and £163m, depending on the number of additional transfer lettings approved for stock management purposes).

Part of this estimated saving is attributable to reducing the number of larger households in temporary accommodation. If far fewer homeless households were accommodated in temporary accommodation as a result of changing the homelessness duty then there would be fewer savings from this source though. Adding together the savings estimated from policy options 1B and 4B might therefore lead to double counting. Excluding all reductions in

¹⁰² Centre for Social Justice (2008) *Housing Poverty: from Social Breakdown to Social Mobility*, www.intute.ac.uk/cgi-bin/fullrecord.pl?handle=20081204-11111858

expenditure on housing benefit in respect of temporary accommodation the savings from landlords making better use of stock are estimated at £43m in the central scenario (between £21m and £92m). This is a more conservative estimate of the additional reduction in housing benefit expenditure relative to the baseline.

Taxpayers could also benefit from the package of preferred options if, over time, less social housing is occupied by households that do not require state support whilst other more needy households go without that support (or wait longer to access it). Devolving power to local authorities and social landlords to make decisions on the basis of individual needs and local circumstances should mean that better decisions can be taken about who gets allocated available social housing. If greater use of flexible tenancies and tighter succession rules (option 2B) result in more housing benefit recipients residing within the social sector rather than in private rented accommodation then the cost to the exchequer of providing housing benefit support might fall because average rents for social housing are lower than those in the private rented sector. There might be an increase in the cost of housing benefit support provided to low income households that leave the social sector though. The overall exchequer impact will depend on whether the change in benefit payments to households that move out of the social housing is offset by the change in expenditure on the households that are able to access the social rented sector.

Internal analysis of the characteristics of different groups of households suggests that reducing the number of social lettings allocated to households owed the main homeless duty might also reduce exchequer costs by changing who gets social housing. However the impact has not been quantified as this is judged to be too uncertain.

It is likely that changes to rules governing housing waiting lists (option 1B) will allow local authorities that adapt their waiting list policies and procedures to realise efficiency savings when managing waiting lists and processing applications for housing. Together these benefits might total £23m over a 30 year period (between £8m and £45m, depending on take-up by local authorities).

Introducing a national home swap (option 3B) scheme could save social tenants £3m (£2m-£4m) in subscription fees to multiple providers and cut costs to social landlords of administering transfer lettings by £6m (£3-£7m).

The total monetised benefits estimated to arise from the package of policy options is shown by Table 27 below, which breaks these down by the party to whom they might accrue. Over 30 years the policy options could generate benefits of around £6.9bn (between £4.2bn and £12.2bn).

Table 27: Summary of benefits from preferred policy options by affected party, £m

Scenario	Affected party					Total
	Local authorities	Local authority landlords	Private Registered Providers	Central Government	Social Tenants	
Low	£472	£1	£1	£3,720	£2	£4,200
Central	£923	£3	£3	£5,974	£3	£6,910
High	£1,714	£4	£4	£10,484	£4	£12,210

Other potentially substantial benefits from reforming tenure reform (option 2B) and increasing mobility within the social sector (options 1B and 3B) could come from reducing worklessness amongst social tenants. Tenure reforms would give social landlords the ability to create more powerful incentives for new tenants to enter paid employment, e.g. by adopting tenancy policies that emphasise the importance of work and continuing to provide support to low income working households not able to access low cost home ownership when their tenancy came to an end. Making it easier for existing social tenants to move to another dwelling – either through a

transfer arranged by their landlord or swapping home with another tenant – would remove one of the barriers to taking up work. Through shaping attitudes towards work more generally, the package of reforms could lead to greater shifts in behaviour than making each change alone.

Getting households to take up paid employment or to find better jobs can have benefits for:

- I. the individuals themselves, e.g. in the form of higher incomes.
- II. government and taxpayers, through reducing expenditure on working age benefits and increasing tax receipts; and
- III. wider society, e.g. from consequential improvements in crime and health outcomes.

Analysis of the tax and benefits system, undertaken by the Department for Work and Pensions, shows that the total benefits to arise from a households moving off of benefits and into work can amount to between £15,000 and £22,000 per individual per annum in the case of recipients of Income Support or Jobseeker's Allowance.¹⁰³ The size of benefits will depend keenly on the particular circumstances of individual tenants though. Whilst it is uncertain what impact the package of preferred options will have on worklessness, it is evident that even if relatively small improvements in employment outcomes were to follow from these reforms then benefits could be considerable.

Costs

The table below, sets out the total monetary costs estimated to follow from the introduction of the package of preferred policy options according to who might incur them. Over 30 years the total monetary costs are estimated at around £300m (between £130m and £620m).

Table 28: Summary of costs from preferred policy options by affected party, £m

Scenario	Affected party				Total
	Local authorities	Local authority landlords	Private Registered Providers	Mutual exchange providers	
Low	£29	£40	£62	£0.4	£132
Central	£82	£89	£129	£0.4	£300
High	£151	£194	£273	£0.4	£618

The largest source of cost to local authorities is predicted to come from authorities' greater use of landlord incentive schemes to secure suitable private sector accommodation for households owed the main homelessness duty (option 4B). Expenditure on securing these offers of private accommodation could amount to around £80m (between £30m and £140m).

Changes to waiting list rules (option 1B) are likely to entail familiarisation costs for all 326 local authorities and further staff costs would be incurred by those that substantially revise their policies and procedures for managing and maintaining waiting lists. In total these one-off costs to local authorities in England might therefore range between £700,000 and £3.9m, with the central estimate at £2.4m.

Local authorities would be required to produce and maintain a strategic tenancy policy as part of tenure reforms (option 2B), which could cost £4m over 30 years (between £2m and £7m).

¹⁰³ DWP, Tax Benefit Model. Benefits from movements into employment are highly dependent on individual circumstances and the figures above are based on hypothetical circumstances. For published tables see: http://research.dwp.gov.uk/asd/asd1/tbm/TBMT_2009.pdf

The majority of costs to social landlords result from actions they are likely to choose to take in order to increase mobility amongst tenants – following the reforms to tenure rules, the removal of transfer lettings from the allocation system and the introduction of a national home swap scheme. Sources of cost for social landlords include producing new tenancy policies, reviewing and granting new tenancies, providing tenants with support and advice, and forgoing rent on dwellings that are vacant. In total these could amount to £218m (between £102m and £466m). These might be split 60:40 between private registered providers of social housing and local authority landlords, although this is uncertain (it will depend on how individual landlords choose to respond to the additional freedoms).

Providers of mutual exchange services that participate in a national home swap scheme might incur costs of £400,000 from modifying their systems and maintaining the capability to share data with other providers, although this will depend on the technological solution that is decided upon.

Overall net benefits

Together the preferred policy options are estimated to have an overall net present value of around £6.6bn (between £4.1 and £11.6bn) over the appraisal period. Monetary benefits are expected to significantly outweigh costs. In addition there are expected to be substantial benefits to households and communities that have not been monetised e.g. from meeting housing needs better and getting more households into paid employment. Non-monetised costs are not judged to offset these benefits; they are likely to be largely distributional. For these reasons the package of reforms are judged to offer overall improvements to social welfare relative to the baseline.

Annex 1: Post Implementation Review (PIR) Plan

Basis of the review: [The basis of the review could be statutory (forming part of the legislation), it could be to review existing policy or there could be a political commitment to review];

We propose to develop a non-statutory approach to post implementation review. This should assess the outcomes from this package of policies alongside those from other related reforms to social housing, making use of readily available data in order to keep reporting burdens on local authorities and Registered Providers of housing to a minimum.

Review objective: [Is it intended as a proportionate check that regulation is operating as expected to tackle the problem of concern?; or as a wider exploration of the policy approach taken?; or as a link from policy objective to outcome?]

Given the flexibilities and discretion being offered to local authorities and other social landlords, this would be a wider exploration of the different approaches being adopted at the local level, and the impact of the different approaches.

Review approach and rationale: [e.g. describe here the review approach (in-depth evaluation, scope review of monitoring data, scan of stakeholder views, etc.) and the rationale that made choosing such an approach]

This will need to take account of impacts from other Localism Bill policies concerning social housing and also the resources available for detailed research. The approach outlined below makes good use of existing data sources, which have been used throughout this Impact Assessment to outline the issues being tackled.

This could be augmented by intelligence gathering from local authorities and Registered Providers to see how they have been adopting new practices. There could also be scope for more detailed research on some elements, for example the housing options for homeless households. The need and scope for this would be reviewed alongside any other priority need for research linked to the Localism Bill.

Over the coming months, further details of any proposed research and analysis will be considered by a Localism Bill review steering group, to ensure that the methods are appropriate, proportionate, and cross-cutting where possible, so that we collect only essential information/data at both the baseline and follow-up review stages.

Baseline: [The current (baseline) position against which the change introduced by the legislation can be measured]

The main section of the Impact Assessment has outlined a range of existing data sources which have been used to put forward a case for change. To recap – these are:

- a. The number of households on waiting lists (source: Housing Strategy Statistical Appendix)
- b. Types of tenancies being offered (COntinuous REcording of lettings and English Housing Survey)
- c. Who is getting social housing (COntinuous REcording of lettings)
- d. What happens to households who present themselves as homeless to a local authority (P1E)
- e. Moves within the social rented sector, compared to other tenures (COntinuous REcording of lettings and English Housing Survey)
- f. Numbers of transfers within the social sector (Housing Strategy Statistical Appendix and COntinuous REcording of lettings)
- g. Number of succession tenancies (English Housing Survey)

Subject to the outcome of ongoing data reviews these data will be used to set a baseline against which change over time can be measured. We will also need to review our main data collection systems (e.g. Housing Strategy Statistical Appendix/ COntinuous REcording of lettings) to see if

there is scope to change data collection to reflect new policy options, e.g. more flexible tenancies, with a view to monitoring the impacts of the legislation in a way that minimises the burden of data collection for local authorities and Registered Providers of housing.

Success criteria: [Criteria showing achievement of the policy objectives as set out in the final impact assessment; criteria for modifying or replacing the policy if it does not achieve its objectives]

The overall approach would be an assessment of how local authorities have responded to the new flexibilities, linked to a change against the baseline measures. Positive indicators would include, over time:

- a. an increasing number of social landlords introducing new waiting list and lettings policies in line with the new flexibilities
- b. a reduction in households on social housing waiting lists
- c. an increasing number of flexible tenancies being granted
- d. fewer successions to tenancies by persons other than a partner/spouse
- e. an increasing number of households moving out of the social rented sector, into appropriate accommodation
- f. an increasing number of moves within the social housing sector
- g. a better balance between household size and types of property, particularly less under occupation and overcrowding
- h. an increasing number of homeless households being appropriately accommodated in the private rented sector

Monitoring information arrangements: [Provide further details of the planned/existing arrangements in place that will allow a systematic collection of monitoring information for future policy review]

As noted above, we will make good use of existing information from returns such as the Housing Strategy Statistical Appendix, COntinuous REcording of lettings and the English Housing Survey, subject to the outcome of ongoing data reviews. As a starting point, we will develop a clear template of indicators, data sources, and frequency of reporting so that we have a transparent system for assessing change against the baseline position. This will also be the starting point for identifying any critical information gaps.

Reasons for not planning a PIR: [If there is no plan to do a PIR please provide reasons here]

There is no plan to undertake a post implementation review of the technical amendment to facilitate more moves out of the social sector. Data is not collected centrally on the number of tenant members of housing associations and to do so would be an additional burden on private bodies and disproportionate.

Annex 2: Common Assumptions

Throughout the Impact Assessment staff costs, including associated overheads, pensions etc are taken to equal average hourly wage rates suggested by Office for National Statistics Survey Control Unit data. In 2010-11 these are:

Level	Rate for 2010/11 financial year
Director	91.24
Senior Manager	70.96
Middle Manager	48.99
Junior Manager	37.18
Clerical	23.63

In future years these wage costs are assumed to rise by 2 per cent p.a. in real terms, in line with the trend rate of real economic growth.

Average local authority rents across England in 2010 are taken to be £69 per week and average rents on housing association properties are £78 per week. These are based on published data,¹⁰⁴ uplifted to current prices using HM Treasury GDP Deflator. Social rents are assumed to rise by 0.5 per cent per annum in real terms in future years.

Based on the same published data, average private sector rents across England are taken as £141 per week in current prices. A weighted average private rent of £180 per week is, however, used in the analysis of homelessness proposals. This reflects the observed concentration of temporary accommodation usage in relatively higher cost areas (particularly London).

A 10 per cent reduction has been made to average private rents by way of allowance for the divergence between average rents and housing benefit levels that is likely to result from forthcoming Local Housing Allowance reforms. Private rents are assumed to rise by 1 per cent in real terms until 2013, then remain constant thereafter (also in line with Local Housing Allowance reforms).

Where analysis makes use of average rents by bedroom size and tenure, these are taken to be:

Bedroom size	Social rented sector	Private rented sector	Temporary accommodation
2	£73.39	£122.53	£236.32
3	£78.99	£129.41	£264.21
4	£93.41	£142.43	£294.99

Social and private rented sector rents shown in this table are based on the same published data (DataSpring), and are given in current prices.

Data on temporary accommodation costs are based on a sample of claims made during 2009 and are assumed to remain constant in real terms beyond 2010. However, these data do not reflect the impact of reforms to housing benefit subsidy arrangements for local authority run temporary accommodation, which took effect in April 2010, though. The new subsidy regime is intended to closer align the amount of housing benefit subsidy which can be claimed on temporary accommodation with the rents charged in the private rented sector. In anticipation, the temporary accommodation rents used in this Impact Assessment have been adjusted

¹⁰⁴ DataSpring, Cambridge Centre for Housing and Planning Research (2010) *Guide to local rents 2009 part 1: cross tenure rents*, University of Cambridge

downward (by 0-12%). Other changes to Housing Benefit paid in respect of temporary accommodation – affecting dwellings run by housing associations – are due to take effect April 2011. Alongside broader reforms to Local Housing Allowance these may further reduce the rents of temporary accommodation below the level assumed in this analysis.

Annex 3: Specific Impact Tests

Equalities Impacts

An initial screening on the equality impact of the preferred policy options has been carried out and, at this stage, indicates that a full equality impact assessment is only required for option 4B (homelessness). This will be published alongside the Localism Bill. During the course of the consultation on the policy paper, *Local Decisions*, we will continue to assess any potential impacts on tenure and allocations, which might point to the need for a full equality impact assessment for the remaining options and keep this under review.

For tenure and allocations, the impacts at local level will depend on the extent to which local authorities use the new flexibilities provided. While greater local discretion might conceivably lead to isolated, highly localised equality impacts, the equality duty – which applies to both local housing authorities and social landlords – will mitigate this because any changes which have the effect of disadvantaging any particular group of people would need to be justified by the individual authority on the basis of clear evidence.

The proposals are not intended to bring about any disadvantage for any particular group of people; rather they are aimed at supporting the most vulnerable groups in society by focusing social housing on those who need it most, with safeguards in place to ensure that this is so.

Justice Impacts

An assessment of the justice impacts from the policy options has been carried out and information is provided in the main document.

Tenure reform

There may be an increased workload for the county courts associated with the use of the new flexible tenancies and increased use of assured shorthold tenancies, in the form of possession orders in the county court. Possession orders would only be required after landlords begin to end tenancies so the earliest possible date for commencement of these cases would be mid 2014. Part 55 of the Civil Procedure Rules governs possession proceedings for all tenants. Enforcement will only be required in the case of a tenant failing to leave the property after a possession order has been served. The landlord could then apply for a warrant of possession enabling the court to arrange a date for eviction.

With the new flexible tenancies, tenants will be able to challenge the landlord's right to possession in the county court on grounds that they have made an error of law or a material error of fact. The court charges attached to landlords' applications for possession orders and warrants for possession are expected to offset the costs to government of applications for possession which are challenged.

Allocations

Applicants will have a new right to an internal review of a decision that they do not qualify to go on the waiting list. Any challenge to the review decision would be by way of judicial review.

Taking transferring tenants out of the allocation system will give local authorities greater scope to move existing tenants without the risk of challenge from applicants on the waiting list, and might therefore reduce the potential for judicial review of allocation schemes.

Homelessness

The homelessness legislation already provides applicants with a right to ask for a review of the suitability of accommodation offered by the local authority, and, if dissatisfied with the decision, a right to appeal to the county court on a point of law. The proportion of applicants who appeal to the county court could increase as a result of this proposal. If, say, 1 per cent of additional applicants for whom the duty is ended with a private sector offer appealed to the county court on suitability, this could result in an increase in between 60 and 360 appeals per annum based on the scenarios outlined in the main document.

Small Firms Impacts

Some of the preferred policy options will have impacts on small businesses, particularly Registered Providers of housing and firms providing mutual exchange services. For example, there will be costs to small housing associations that make more lettings to existing social tenants or choose to grant flexible tenancies. In these cases costs are not, however, expected to disproportionately affect small firms – they are likely to rise in line with the number of dwelling stock owned and managed by these landlords. Further, it will be left to the discretion of Registered Providers how best to respond to the additional freedoms that will be provided: weighing up the benefits of more efficient use of social housing against the additional costs of changing the way it is utilised.

Most providers of mutual exchange services are likely to be small firms and it would not be possible to achieve the policy objective without impacting upon these organisations. Efforts have been made to minimise the impacts of regulation upon the industry including ongoing exploration of voluntary means of implementing a national home swap scheme. Government will continue to consult with providers of mutual exchange services during the development of the preferred technical solution and the detail of any regulatory Standard to ensure compliance is as simple as possible and costs are kept to a minimum.

Environmental Impacts

No greenhouse gas or wider environmental impacts are expected to result from the preferred policy options. The proposals are not expected to affect sustainable development.

Health and Wellbeing Impacts

By affecting the way that social housing is allocated and managed the policies are likely to have some beneficial impacts on health and wellbeing of households. These are discussed in relevant sections of the main document. A full health impact assessment has not been undertaken as there are not expected to be significant impacts on lifestyle variables or demand for health and social care services.

Human Rights Impacts

None of the preferred options are expected to have human rights implications.

Rural proofing

The impacts of the preferred policy options have been considered in light of guidance from the Commission for Rural Communities and are not expected to disproportionately affect rural areas.

Annex 4: ‘One in One Out’ regulatory impacts

This annex provides summary information on the regulatory impacts of the preferred options in accordance with the Government’s new ‘One-In, One-Out’ approach to regulation. This draws on analysis presented in the main evidence base sections of the Impact Assessment.

The ‘One-In, One-Out’ approach requires that all new regulations, broadly defined, with impacts on business and the third sector must be matched by measures with equal or greater deregulatory impacts. To facilitate this, estimates of the net cost to business, i.e. compliance costs incurred by businesses less the benefits they gain, are set out below. These take the form of Equivalent Annual Net Costs to Business, which are based on the present value of costs and benefits.¹⁰⁵

Estimated cost to business and the third sector

Allocations

Taking transfer lettings to existing social tenants out of the statutory allocations framework is likely to increase the number of households moving within the social rented sector. As a result of the need to administer these moves and the likelihood that more dwellings are void temporarily, Registered Providers of housing could incur greater costs.

The scenarios used for analysis imply that the Equivalent Annual Net Costs to Business (to Registered Providers of housing) would be £740,000 in the central case. This might range from £350,000 to £1.6m in the low and high scenarios. In all cases housing associations will have the discretion as to whether to make more lettings to existing tenants (thereby incurring these costs).

Tenure

Alongside the introduction of powers to grant flexible tenancies, Registered Providers of housing will be required to incur the expense of developing and publishing lettings policies setting out how the powers will be used. Those housing associations that decide to grant flexible tenancies will also face the additional cost of reviewing these after a certain period, and in cases where tenants move out of the social sector will have the cost of providing support and advice to households, as well as greater void costs.

In total, the Equivalent Annual Net Costs to Business (to Registered Providers of housing) is estimated to be £800,000 in the central scenario and £400,000 or £1.6m in the low or high scenarios. These estimates assume that Registered Providers account for half of the use of flexible tenancies.

Mobility

The proposals for creating a national mutual exchange scheme are likely to entail relatively small costs to firms providing these services, who will have to make arrangements to share data. There are likely to be greater costs for Registered Providers of housing, who will need to administer additional moves that result from having a national scheme in place. Some offsetting savings in costs of transfer lettings are expected though. There is a large degree of uncertainty around the estimates but in the central scenario the Equivalent Annual Net Costs to Business might be £30,000 (£10,000, or £70,000 in the low and high scenarios).

¹⁰⁵ $EANCB = PVNCB / [1 - 1 / (1+r)^t] / r$. Where PVNCB = present value of net costs to business, r = the discount rate, and t = the number of years over which the policy is appraised.

Homelessness

No regulatory impacts are expected to follow from amending the homelessness legislation.

Total

The total Equivalent Annual Net Costs to Business of all the policy options combined is estimated at £1.6m (between £800,000 and £3.3m).

Annex 5: Summary of impacts over 10 year period

Each of the preferred policy options has been appraised over a 30 year period in order to provide a full analysis of their impacts. This annex sets out, briefly, the estimated impacts over the initial ten year period of analysis. These figures are more readily comparable with estimates made in other Localism Bill Impact Assessments.

Option 1B: Local authorities decide who gets on the waiting list; central government continues to set priority rules; remove existing tenants (without reasonable preference) wishing to transfer from the allocations system

Benefits

- Enabling local authorities to manage housing waiting lists more efficiently could generate savings of £2m (between £350,000 - £5m, depending on what proportion of authorities revise policies).
- Savings of £12m (£5m - £21m) could result from reductions in the time spent assisting housing applicants.
- Increasing the number of transfer lettings to existing social tenants could reduce the number of households living in unsuitable conditions. For example this could reduce the number of overcrowded households by 44,000 (21,000 – 94,000). Making better use of the social housing stock could also reduce expenditure on housing benefit by taxpayers by £11m (£5m - £23m).

In total, benefits are estimated at £24m (£10m - £48m) over 10 years.

Cost

- Upfront familiarisation costs to local authorities are estimated at £800,000 (£300,000 - £1.2m).
- Local authorities that make significant adaptations to their waiting list policies and procedures are estimated to incur costs of £1.6m (£1.2m in the low and high cost scenarios)
- Social landlords may see costs rise as a result of making more lettings to existing tenants, owing to the administration involved in arranging moves and rental incomes foregone while properties are temporarily vacant. These could amount to £25m (£12m - £54m) over the first 10 years of the policy.

In total, costs are estimated at £27m (£15m - £55m).

Net present value

Over 10 years the net benefit of option 1B is estimated at -£3m (£33m to -£45m).

Option 2B: Social landlords given the freedom to set the terms of new tenancies and succession rights for new social tenants

Benefits

- Over the initial 10 year period the number of flexible tenancies granted could be around 450,000 (300,000 – 660,000 depending on take-up by landlords) and there could be an estimated 18,000 (2,000 – 66,000) moves out of the social sector over the period, creating additional lettings for other households on the waiting list.
- As a result flexible tenancies are expected to bring significant benefits to social tenants and their landlords; making it easier for tenants to move and enabling landlords to make better use of stock. These benefits have not been monetised.
- Employment related benefits are also possible if local policies on the renewal of tenancies, which might for example focus on ensuring that those in low paid employment continued to receive support through a social tenancy when their existing tenancy came to an end, encourage positive behavioural change.

Costs

- Costs to social landlords of providing advice and assistance will be much lower over 10 years than the full 30 year appraisal period as the number of flexible tenancies granted will still be rising and few will yet have reached the end of their fixed period.
- Costs to local authorities from familiarisation with the policy and the production of strategic tenancy policies are estimated at £1.5m (£900,000 - £2m).
- Social landlords could incur costs of £3.4m (£2.6m - £4.3m) when developing and maintaining tenancy policies.
- Costs to social landlords from reviewing flexible tenancies are estimated at £1.5m (£400,000 - £3.2m).
- Providing support and assistance to tenants moving out of the social sector at the end of flexible tenancies could amount to £700,000 (£50,000 - £4.2m), whilst higher turnover of social housing could cost social landlords £1.1m (£100,000 - £4.1m) through foregone rental income.
- Social landlords could also incur costs from court proceedings when taking possession of properties. These might amount to £140,000 (£20,000 - £500,000).

In total the 10 year costs for option 2B are estimated to be £8m (£7m and £16m).

Option 3B: Social landlords are required to participate in mutual exchange schemes through which tenants can search all records of potential partners

Benefits

- A national home swap scheme is likely to increase the number of social tenants moving house via mutual exchange with other social tenants. Over 10 years there could be 55,000 more moves as a result of this policy (22,000 – 110,000), benefiting households who can move to properties better suited to their needs.

- Social tenants could also make financial savings because the home swap scheme will reduce the need for them to hold 'duplicate' subscriptions to mutual exchange services. These are estimated at £1.1m (£800,000 - £1.5m, depending on how many tenants would otherwise subscribe to other services).
- Social landlords could benefit from reductions in void properties and associated lettings costs as the number of mutual exchange moves increases because this could reduce the number of existing tenants requesting transfer lettings. These savings could amount to £2.3m (£1.2m - £3.1m, depending on the number of mutual exchange moves substituting for transfer lettings)

Total benefits over 10 years are estimated at £3.5m (£2m - £4.6m)

Costs

- Changes to providers' IT systems, which enable their data to be shared, might cost £100,000 and over 10 years the additional costs of maintaining these systems could amount to £80,000. These costs could be met by mutual exchange providers or it might fall to central government to provide the necessary funding.
- Social landlords could incur costs of £3.5m in administering additional mutual exchange moves (£1.4m - £7.1m) and the cost of additional time spent ensuring compliance with the policy might amount to £200,000 over 10 years.

Total costs are estimated at £3.9m (£1.8m - £7.5m) over the initial 10 years.

Net present value

Over 10 years the net benefit of option 3B is estimated at -£500,000 (between £200,000 and -£2.8m).

Option 4B: End the right to refuse offers of private sector housing that applicants for homelessness assistance have. Allow local authorities discretion over how best to use available social housing

Benefits

- Reducing the number of households requesting assistance under the homelessness legislation could enable local authorities to make savings of around £160m (£50m - £340m) in administration costs over 10 years.
- Local authorities could also make savings as a result of substantial reductions in the number of households placed in temporary accommodation. Over a 10 year period these might amount to £180m (£110m - £280m).
- As a result of the reduction in the use of costly temporary accommodation, government could realise savings of £2.19bn (£1.37bn - £3.68) in the housing benefit bill.

Total benefits are estimated at around £2.5bn (£1.5bn - £4.3bn)

Costs

- Local authorities opting to bring the main homelessness duty to an end by providing offers of suitable private rented accommodation might incur costs of £23m (£8m - £42m) as a result of running schemes to incentivise private landlords to let to homeless acceptances.

Net Present value

Over 10 years the net benefit of option 4B is estimated at around £2.5bn (between £1.5bn and £4.3bn).

Summary of costs and benefits of overall package of reforms

- Total costs over the initial 10 year period are estimated at around £60m (£30m - £120m).
- Over 10 years total benefits are estimated at circa £2.5bn (between £1.5bn and £4.3bn) and the net present value of the package of preferred policy reforms is expected to be in the same order of magnitude.