



# Tenant Cashback scheme

## Impact assessment



## Tenant Cashback scheme

### **Impact assessment**

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<b>Title:</b> Tenant Cashback  <b>Lead department or agency:</b> <b>Department for Communities and Local Government</b>  Other departments or agencies:	<b>Impact Assessment (IA)</b>
	<b>IA No:</b> 0071
	<b>Date:</b> June 2011
	<b>Stage:</b> Consultation
	<b>Source of intervention:</b> Domestic
	<b>Type of measure:</b> Other
<b>Contact for enquiries:</b> Simon Gundry – 03034 443665	

## Summary: Intervention and Options

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

As a result of the over-centralised approach too often taken in planning and delivering maintenance services, tenants miss out on the opportunity to exercise choice over repair and maintenance works. Neglecting to involve tenants could be costly as many have a wealth of knowledge over what needs doing, how this should be done and when is the best time to carry out work. Many householders possess the expertise to carry out basic repairs themselves, although at the moment they sometimes have little incentive to spend their own time and money on repairs as any savings they make go entirely to the landlord. When social landlords come to commissioning large-scale maintenance contracts local traders may be overlooked. This could be to the detriment of some of the most deprived communities in the country, whose local economies could benefit if more money was spent locally.

### What are the policy objectives and the intended effects?

The aim of the policy is to offer social tenants more power over their homes and neighbourhoods by passing on the opportunity for delivering some repairs and maintenance services from the landlord to the tenant. Tenants will be able to share in any financial savings they can make, building up individual wealth and savings that will reach some of the poorest in society. Together with promoting greater financial and social inclusion, the Tenant Cashback model could be supported by training that raises tenants' skill levels and gives them the chance to put these into practice. The policy will foster a sense of responsibility within communities, while providing work for small local traders and potentially develop skills and help alleviate the high levels of worklessness in the social housing sector.

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

Option 1 – 'do nothing' (maintain the status quo)

Option 2 – set a broad framework through a revised Tenant Involvement Standard which gives opportunities to tenants, with the agreement of landlords, to be involved in the management of repair and maintenance services, and share in the savings made.

Option 3 – prescribe social landlords to involve tenants in maintenance and repair services in specific ways, such as by devolving control over certain parts of budgets.

Option 2 is preferred as it is the only option that meets the Government's policy outcomes for the scheme. Option 1 would fail to ensure that all social tenants have the opportunity to influence maintenance services, whereas option 3 is overly centrally prescriptive and would risk increasing costs for social landlords.

**Will the policy be reviewed?** It will be reviewed. **If applicable, set review date:** April 2014

**What is the basis for this review?** PIR **If applicable, set sunset clause date** N/A

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

**Ministerial Sign-off** For consultation stage Impact Assessments:

***I have read the Impact Assessment and I am satisfied that, given the available evidence, it represents a reasonable view of the likely costs, benefits and impact of the leading options.***



Signed by the responsible Minister:

..... Date: 29 June 2011 .....

## Summary: Analysis and Evidence

## Policy Option 2

**Description:** Within a broad framework set by the regulator, social tenants are provided with a range of opportunities to take responsibility for maintenance services and to share in the savings

Price Base Year	PV Base Year	Time Period Years	Net Benefit (Present Value (PV)) (£m)		
			Low: N/A	High: N/A	Best Estimate: N/A
<b>COSTS (£m)</b>	<b>Total Transition (Constant Price) Years</b>		<b>Average Annual (excl. Transition) (Constant Price)</b>		<b>Total Cost (Present Value)</b>
<b>Low</b>	N/A		N/A		N/A
<b>High</b>	N/A		N/A		N/A
<b>Best Estimate</b>	N/A		N/A		<b>N/A</b>
<b>Description and scale of key monetised costs by 'main affected groups'</b>					
<p>It has not been possible to quantify costs at this stage because option 2 gives landlords significant freedom on involving social tenants in maintenance services; letting landlords and tenants work together to implement schemes means that a variety of local conditions will emerge which cannot be centrally assessed in advance. Pilots will return an evidence base when sufficient progress has been achieved, including a thorough examination of costs, and on the practical implementation of different models.</p>					
<b>Other key non-monetised costs by 'main affected groups'</b>					
<p>Social landlords will incur one-off costs when formulating opportunities for involving tenants in maintenance services, for example when setting up Tenant Cashback schemes. There will be direct ongoing costs to landlords from involving tenants, e.g. from operating schemes, and there may be indirect costs if greater choice results in less standardisation or economies of scale in maintenance services. Tenant involvement could sometimes lead to poorer quality building work being carried out, thus reducing the value of social housing or necessitating additional investment by landlords. Overall, we expect social landlords to use the flexibilities to design schemes that are at least cost neutral i.e. these sources of cost are offset by the benefits outlined below. The regulator will consult later in the year on the content of the standards including on their implementation and enforcement.</p>					
<b>BENEFITS (£m)</b>	<b>Total Transition (Constant Price) Years</b>		<b>Average Annual (excl. Transition) (Constant Price)</b>		<b>Total Benefit (Present Value)</b>
<b>Low</b>	N/A		N/A		N/A
<b>High</b>	N/A		N/A		N/A
<b>Best Estimate</b>	N/A		N/A		<b>N/A</b>
<b>Description and scale of key monetised benefits by 'main affected groups'</b>					
<p>We expect savings to be realised, and for some of the financial benefit of this to accrue to tenants – but that it is difficult to quantify benefits at this stage due to the flexibilities that landlords will have and the lack of data accrued from pilots thus far.</p>					
<b>Other key non-monetised benefits by 'main affected groups'</b>					
<p>Enabling tenants to exercise greater choice over maintenance services is likely to lead to an increase in their self-reliance, develop skills and self-confidence and raise levels of satisfaction with the condition and management of social housing. Tenant Cashback schemes could benefit tenants and local communities by enabling them to do some work themselves or commission it locally, keeping any savings they make. Increasing tenant involvement could also reduce maintenance costs by: simplifying maintenance processes; increasing competition amongst building contractors; rewarding tenants for looking after social housing; and making landlords more accountable for delivering efficient maintenance programmes.</p>					

<b>Key assumptions/sensitivities/risks</b>			<b>Discount rate (%)</b>	
<p>The analysis assumes that social landlords will take steps to ensure that greater tenant involvement is a cost neutral or cost saving measure when designing schemes. There is a risk that, in some cases, landlords may only be able to offer limited tenant involvement because savings are insufficient to offset the costs of setting up and running more involved schemes. Greater tenant involvement in maintenance may carry minor health and safety impacts for tenants.</p>				
<i>Direct impact on business (Equivalent annual) (£m):</i> Costs: N/A      Benefits: N/A      Net: N/A			<i>In scope of OIOO?</i> <b>Yes</b>	<i>Measure qualifies as</i> <b>Neutral</b>

## 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?	Housing Regulator				
What is the annual change in enforcement cost (£m)?					
Does enforcement comply with Hampton principles?	Yes				
Does implementation go beyond minimum EU requirements?	N/A				
What is the CO <sub>2</sub> equivalent change in greenhouse gas emissions? (Million tonnes CO <sub>2</sub> equivalent)	<b>Traded:</b> 0		<b>Non-traded:</b> 0		
Does the proposal have an impact on competition?	No				
What proportion (%) of Total PV costs/benefits is directly attributable to primary legislation, if applicable?	<b>Costs:</b> 0		<b>Benefits:</b>		
Distribution of annual cost (%) by organisation size	<b>Micro</b>	<b>&lt; 20</b>	<b>Small</b>	<b>Medium</b>	<b>Large</b>
Are any of these organisations exempt?	No	No	No	No	No

## Specific Impact Tests: Checklist

Does your policy option/proposal have an impact on...?	Impact	Page ref within IA
<b>Statutory equality duties<sup>1</sup></b> <u>Statutory Equality Duties Impact Test guidance</u>	No	
<b>Economic impacts</b>		
Competition <u>Competition Assessment Impact Test guidance</u>	Yes	
Small firms <u>Small Firms Impact Test guidance</u>	Yes	
<b>Environmental impacts</b>		
Greenhouse gas assessment	No	
Wider environmental issues	No	
<b>Social impacts</b>		
Health and well-being <u>Health and Well-being Impact Test guidance</u>	No	
Human rights <u>Human Rights Impact Test guidance</u>	No	
Justice system <u>Justice Impact Test guidance</u>	No	
Rural proofing <u>Rural Proofing Impact Test guidance</u>	No	
<b>Sustainable development</b> <u>Sustainable Development Impact Test guidance</u>	No	

<sup>1</sup> Race, disability and gender Impact assessments are statutory requirements for relevant policies. Equality statutory requirements will be expanded 2011, once the Equality Bill comes into force. Statutory equality duties part of the Equality Bill apply to GB only. The Toolkit provides advice on statutory equality duties for public authorities with a remit in Northern Ireland.



## Summary: Analysis and Evidence

## Policy Option 3

**Description:** require social landlords to give tenants the opportunity to take control of repair and maintenance services in specific ways, including by devolving control over certain parts of budgets

Price Base Year	PV Base Year	Time Period Years	Net Benefit (Present Value (PV)) (£m)		
			Low: N/A	High: N/A	Best Estimate: N/A
<b>COSTS (£m)</b>	<b>Total Transition (Constant Price) Years</b>		<b>Average Annual (excl. Transition) (Constant Price)</b>		<b>Total Cost (Present Value)</b>
Low	N/A		N/A		N/A
High	N/A		N/A		N/A
Best Estimate	N/A		N/A		<b>N/A</b>
<b>Description and scale of key monetised costs by 'main affected groups'</b>					
It has not been possible to quantify costs at this stage because there is insufficient evidence on how tenants would respond to the devolution of control over repairs and maintenance budgets by social landlords.					
<b>Other key non-monetised costs by 'main affected groups'</b>					
All social landlords will incur costs when devolving control over maintenance budgets and from running Tenant Cashback schemes. Some landlords could also see increases in the cost of repairs and maintenance as a result of less standardisation and because economies of scale might be forgone. There is a risk that poor quality building work or damage caused to social housing could lower the value of the dwelling stock or necessitate additional investment by social landlords. The Regulator may have to devote some additional resources to ensuring that landlords offer opportunities for tenants to be involved.					
<b>BENEFITS (£m)</b>	<b>Total Transition (Constant Price) Years</b>		<b>Average Annual (excl. Transition) (Constant Price)</b>		<b>Total Benefit (Present Value)</b>
Low	N/A		N/A		N/A
High	N/A		N/A		N/A
Best Estimate	N/A		N/A		<b>N/A</b>
<b>Description and scale of key monetised benefits by 'main affected groups'</b>					
It has not been possible to quantify benefits at this stage because there is insufficient evidence on how tenants would respond to the devolution of control over repairs and maintenance budgets by social landlords.					
<b>Other key non-monetised benefits by 'main affected groups'</b>					
Enabling tenants to exercise greater choice over maintenance services is likely to increase their wellbeing and levels of satisfaction with the condition and management of social housing. Tenant Cashback schemes could benefit social tenants and local communities by enabling them to benefit from maintenance spending and increase opportunities to take care of their own homes.					
Increasing tenant involvement could reduce the cost of maintaining social housing by: simplifying maintenance processes; increasing competition amongst building contractors; allowing tenants to source cheaper materials and services; rewarding tenants for looking after social housing (by letting them share in savings); and making landlords more accountable for delivering efficient maintenance programmes. However, in many cases these savings might not be large enough to offset the additional costs of running Tenant Cashback schemes, imposing net costs on social landlords and their tenants.					

<b>Key assumptions/sensitivities/risks</b>	<b>Discount rate (%)</b>
<p>There is a risk that requiring all social landlords to hand over control of maintenance services to tenants would generate net costs and put upward pressure on rents. This could occur whenever the costs of setting up and running certain types of tenant involvement schemes exceeded the savings they enabled tenants and landlords to make. Greater tenant involvement in maintenance may carry minor health and safety impacts for tenants.</p>	

<i>Impact on admin burden (AB) (£m):</i>		<i>In scope of OIOO?</i>	<i>Measure qualifies as</i>
<i>New AB:</i>	<i>AB savings:</i>	<i>Yes</i>	<b><i>In</i></b>
	<i>Net:</i>		

## 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?	Housing Regulator				
What is the annual change in enforcement cost (£m)?					
Does enforcement comply with Hampton principles?	Yes				
Does implementation go beyond minimum EU requirements?	N/A				
What is the CO <sub>2</sub> equivalent change in greenhouse gas emissions? (Million tonnes CO <sub>2</sub> equivalent)	<b>Traded:</b> 0	<b>Non-traded:</b> 0			
Does the proposal have an impact on competition?	No				
What proportion (%) of Total PV costs/benefits is directly attributable to primary legislation, if applicable?	<b>Costs:</b> 0		<b>Benefits:</b>		
Distribution of annual cost (%) by organisation size	<b>Micro</b>	<b>&lt; 20</b>	<b>Small</b>	<b>Medium</b>	<b>Large</b>
Are any of these organisations exempt?	No	No	No	No	No

## Specific Impact Tests: Checklist

Does your policy option/proposal have an impact on...?	Impact	Page ref within IA
<b>Statutory equality duties<sup>2</sup></b> <u>Statutory Equality Duties Impact Test guidance</u>	No	
<b>Economic impacts</b>		
Competition <u>Competition Assessment Impact Test guidance</u>	Yes	
Small firms <u>Small Firms Impact Test guidance</u>	Yes	
<b>Environmental impacts</b>		
Greenhouse gas assessment	No	
Wider environmental issues	No	
<b>Social impacts</b>		
Health and well-being <u>Health and Well-being Impact Test guidance</u>	No	
Human rights <u>Human Rights Impact Test guidance</u>	No	
Justice system <u>Justice Impact Test guidance</u>	No	
Rural proofing <u>Rural Proofing Impact Test guidance</u>	No	
<b>Sustainable development</b> <u>Sustainable Development Impact Test guidance</u>	No	

## Evidence Base (for summary sheets) – Notes

### References

No.	Legislation or publication
1	Review of Social Housing Regulation. <a href="http://www.communities.gov.uk/publications/housing/socialhousingregulation">http://www.communities.gov.uk/publications/housing/socialhousingregulation</a>
2	Local Decisions: a fairer future for social housing <a href="http://www.communities.gov.uk/publications/housing/socialhousingreform">http://www.communities.gov.uk/publications/housing/socialhousingreform</a>
3	
4	

<sup>2</sup> Race, disability and gender Impact assessments are statutory requirements for relevant policies. Equality statutory requirements will be expanded 2011, once the Equality Bill comes into force. Statutory equality duties part of the Equality Bill apply to GB only. The Toolkit provides advice on statutory equality duties for public authorities with a remit in Northern Ireland.

# Evidence Base (for summary sheets)

## **Background**

There is a wide range of ways that social landlords can involve tenants in the management and delivery of their housing services, from making tenants aware of issues and soliciting their views, to letting them influence services via tenant panels and formal consultations, to schemes that give tenants opportunities to directly participate in the delivery of services. The Tenant Cashback model is within the latter end of the spectrum. It would enable social tenants to play an active part in maintaining their homes and to share in any savings that they make in maintenance budgets.

## **Problem under consideration**

At present social tenants are not always able to play a part in deciding how their homes are maintained or how repairs are carried out. Too much of the power to hold social landlords accountable for delivering these essential services rests with the Social Housing Regulator, not local communities and neighbourhood tenant groups.

As a result of the over-centralised approach too often taken in planning and delivering maintenance services, tenants miss out on the opportunity to exercise choice over repair and maintenance works. Neglecting to involve tenants could be costly as many have a wealth of knowledge over what needs doing, how this should be done and when is the best time to carry out work. Moreover, many householders possess the expertise to carry out basic repairs themselves, although at the moment they sometimes have little incentive to spend their own time and money on repairs because any savings they make go entirely to the landlord.

When social landlords come to commissioning large-scale maintenance contracts local traders may be overlooked. This could be to the detriment of some of the most deprived communities in the country, whose local economies could benefit if more money was spent locally.

## **Rationale for intervention**

The Government is taking forward significant reforms to the existing regulatory system as outlined in the Review of Social Housing. The Review recommended a shift to greater local involvement by tenants to challenge and hold landlords to account. To drive this shift, the Review recommended that the Secretary of State should direct the Regulator to issue a new standard on tenant involvement. It is part of this drive towards greater tenant involvement that tenants should take greater responsibility for managing repairs and maintenance for their own homes.

This change to the regulatory framework will place greater emphasis on engaging with tenants, requiring social landlords to attach more weight to the benefits that involvement can bring to residents when taking operational decisions. This will ensure social landlords would give full consideration to measures that would benefit tenants.

Of all the reasons for intervening, the most compelling is to shift the balance of power more towards social tenants, giving more of them the chance to bring about improvements in the quality of services and to share in the financial savings their involvement could generate. There is a strong equity argument for making sure local people have a fair opportunity to influence decisions that matter to their lives and benefit from the fruits of their labours.

Giving social tenants more opportunities to influence maintenance and repairs decisions is also merited on grounds of economic efficiency – in order to improve overall levels of wellbeing. The potential efficiency benefits are listed below.

## Efficiency benefits

1. Making it financially worthwhile for social tenants to take on more responsibility for looking after their homes – by allowing them to share in savings – could reduce the overall amount of investment required to maintain and improve the quality of the social housing stock. Lower maintenance bills could benefit both tenants and landlords, depending on how resource savings are shared out.

Tenants may be better placed to know what work needs doing to their homes than their landlords but do not have the same incentives to contribute to upkeep because they do not own the properties. This information asymmetry between landlords and tenants means that maintenance programmes are not always as efficient as they could be. For example, preventative works may be overlooked and contractors may be called in to fix problems that could be tackled by tenants themselves. The Tenant Cashback model would better align tenant and landlord incentives, helping overcome this 'principal-agent problem' by actually rewarding householders for looking after their rented homes. Tenants would have more reason to respond to the first signs of a problem rather than waiting for it to cause damage before addressing it e.g. fixing a broken bathroom seal before leaking water damages plasterwork.

2. There may also be circumstances where tenants are able to get repairs done more cheaply than landlords. By cutting out the 'middle man' (landlords and their agents) and enabling tenants to directly commission and oversee their own building works, there may be occasions where administrative costs associated with operating maintenance programmes could be reduced.

Alternatively, tenants (or local people they know) might be qualified to carry out repairs themselves. In some instances they might be able to do so for a lower price than existing contractors. By opening up maintenance budgets from centrally procured contracts to a wider range of potential suppliers, the proposals might increase competition, thereby driving down labour and materials costs.

3. Empowering tenants could raise standards and cut costs by creating stronger incentives for social landlords to make best use of repairs and maintenance budgets, driving further efficiencies from the system.
4. Repairs and maintenance budgets are used to carry out a huge variety of building works, many of which can be carried out in different ways, to different timescales and using materials with different characteristics. Preferences over how budgets are spent differ from one household to the next and across different areas of the country. As a result of this heterogeneity, enabling tenants to exercise greater choice can increase their satisfaction with the repairs process and with the condition of their housing. For example, some households may prefer to accept longer intervals before their homes are redecorated and to enjoy the cash savings this generates. Others might put more value on being able to exert greater influence over the type of materials used or to decide what time repairs get done, keeping the cost of maintenance services constant.

## Policy objective

The aim of the policy is to offer social tenants more power over their homes and neighbourhoods by passing on the opportunity for delivering some repairs and maintenance services from the landlord to the tenant and give more of a say and more involvement in maintenance in general.

Tenants will be able to share in any financial savings they can make, building up individual wealth and savings that will reach some of the poorest in society. Together with promoting greater financial and social inclusion, the Tenant Cashback model could be supported by training that raises tenants' skill levels and gives them the chance to put these into practice. The aim of the model is to strengthen the bond between neighbours and foster a sense of responsibility within communities, while providing work for small local traders and potentially developing skills that could help alleviate the high levels of worklessness among social tenants.

Increasing tenant involvement in maintaining and repairing social housing should, as a minimum, be cost neutral – schemes should be self-financing – and not place additional burdens on social landlords.

## **Description of options considered**

This impact assessment explores three options for overcoming the problems stemming from lack of tenant involvement in decisions affecting the way their homes are maintained and repairs are carried out.

Option 2 is the preferred option as it is expected to meet the Government's key policy objectives. Option 1 would fail to ensure that all social tenants have the opportunity to influence maintenance services, whereas option 3 is overly centrally prescriptive and would risk increasing costs for social landlords by requiring them to devolve a set of powers over their maintenance activities regardless of local circumstances.

### **OPTION 1 – 'DO NOTHING'**

The first option is for Government to take no further action beyond what is already being done to promote good practice amongst social landlords. In essence this would maintain the status quo.

Several social landlords are already planning to pilot a Tenant Cashback model amongst parts of their stock. Over time some other landlords might gradually begin to adopt ideas demonstrated by these pilots, leading to a few service improvements for some groups of tenants. Some social landlords may be reluctant to roll-out new approaches to maintenance even though greater tenant involvement could make landlords more accountable and put greater pressure on them to deliver.

A large proportion of social tenants would continue to lack opportunities to participate in decisions over how their homes are maintained. For this reason, 'doing nothing' is not likely to achieve the objectives set out in the preceding section.

Option 1 forms the baseline against which the impacts of the other two options are appraised.

### **OPTION 2 – 'SET A BROAD FRAMEWORK FOR TENANT INVOLVEMENT'**

The second option is for Government to use the Tenant Involvement and Empowerment Direction to ensure that, as agreed with their landlords, social tenants are provided with opportunities to be involved in the management of repair and maintenance services. These opportunities would include undertaking and commissioning routine repair services and sharing in the savings made. We recognise that local circumstances, including age, condition and type of housing, will need to be taken into account in each locality: we do not therefore intend to prescribe how landlords should involve tenants.

At the same time Government would continue to encourage social landlords to develop ways of involving tenants in planning and delivering services. The Tenant Cashback model will be piloted in several areas and the lessons learned will help to inform the way social landlords choose to respond to the regulatory requirement to offer opportunities for tenant involvement.

### **OPTION 3 – ‘CENTRALLY PRESCRIBE HOW TENANTS SHOULD BE INVOLVED’**

The third option is for Government to prescribe how social landlords should devolve control of certain parts of the repairs and maintenance budget to tenants. This would ensure that all tenants would play a greater part in these activities but it is likely that this one-size-fits-all approach would require some landlords to implement schemes that were not well suited to local circumstances. This could cause landlords to incur additional costs that are not offset by efficiencies elsewhere, to the detriment of social tenants who would witness pressures on rents or service standards.

### **Analysis of Option 1 – ‘do nothing’**

This section provides baseline information on maintenance and repairs in social housing.

#### **TYPES OF MAINTENANCE AND REPAIR WORK**

Repairs and maintenance can be categorised under three broad headings: responsive, cyclical and planned work. As the name implies, responsive repairs are carried out after problems have been experienced with building components. Responsive repairs encompass a broad range of works, from emergency callouts to deal with major water damage or complete electrical failure to routine appointments to unblock drains and re-hang doors. The bulk of responsive repairs are comprised of relatively simple, low value works though.

Cyclical and planned maintenance refer to activities that landlords’ schedule to take place e.g. based on the estimated lifetimes of building components or to ensure that minimum safety standards are upheld. These maintenance activities can include areas of work such as external painting programmes, boiler maintenance and large-scale replacement/refurbishments of roofing, windows, external doors, kitchens, bathrooms and electrical re-wires.

#### **EXPENDITURE ON MAINTENANCE AND REPAIRS**

##### ***Local authorities***

During 2008-09 local authority landlords spent a total of £1.8bn on repairs to the dwelling stock, an average of just under £1,000 per property<sup>3</sup>. This covered all types of maintenance, not all of which might be suited to greater tenant involvement, e.g. major works.

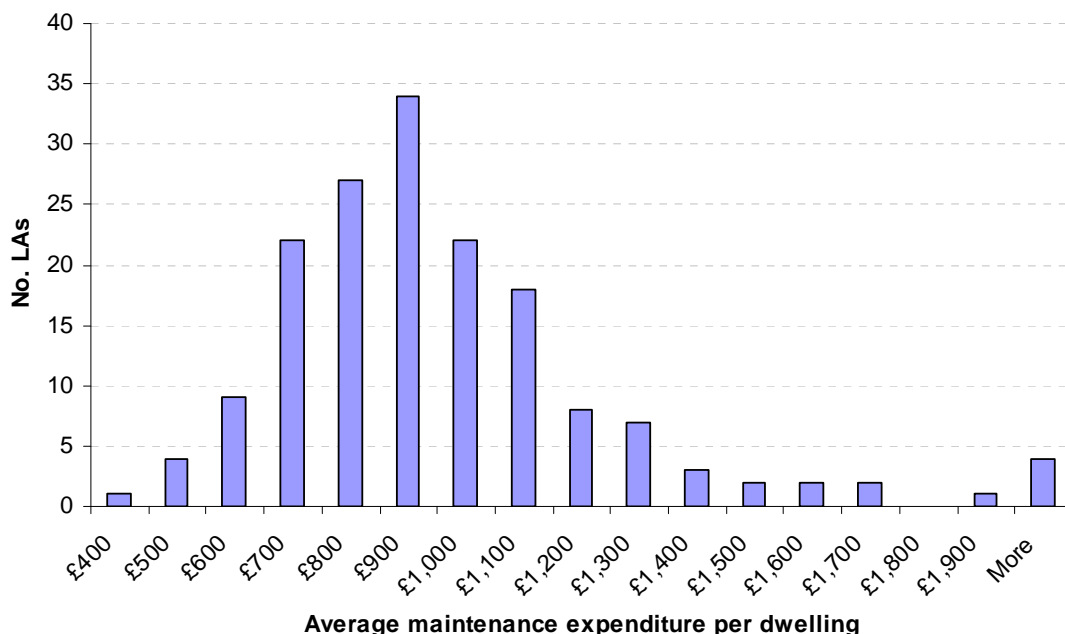
Average maintenance expenditure varies significantly from one landlord to another. Expenditure per dwelling ranged from less than £400 to more than £2,000 per annum in 2009-10<sup>4</sup>. This is illustrated by the chart below, which shows that many local authorities spent considerably more, or less, than the average on maintenance.

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<sup>3</sup> DCLG, Housing Revenue Account, <http://www.communities.gov.uk/documents/housing/xls/141845.xls>

<sup>4</sup> DCLG, Business Planning Statistical Appendix, <http://www.communities.gov.uk/documents/housing/xls/1782861.xls>

**Chart 1: Distribution of average maintenance expenditure across local authority landlords**



There are reasons to expect that for any given landlord, spending on maintenance also differs from one property to another depending on the scale of repairs that it needs. Over time however, such differences may average out.

**Housing associations**

In total, housing associations spent £2.5bn on maintenance in 2009-10<sup>5</sup>. On average this amounted to almost £1,000 per dwelling. The regulator’s data breaks this down into ‘routine’ maintenance expenditure (on day to day and cyclical activities) and ‘planned’ maintenance. Two-thirds of all maintenance expenditure was classed as ‘routine’, with the other third ‘planned’. The table below shows the average housing association expenditure per dwelling on each type of maintenance.

**Table 1: Average housing association maintenance expenditure per dwelling**

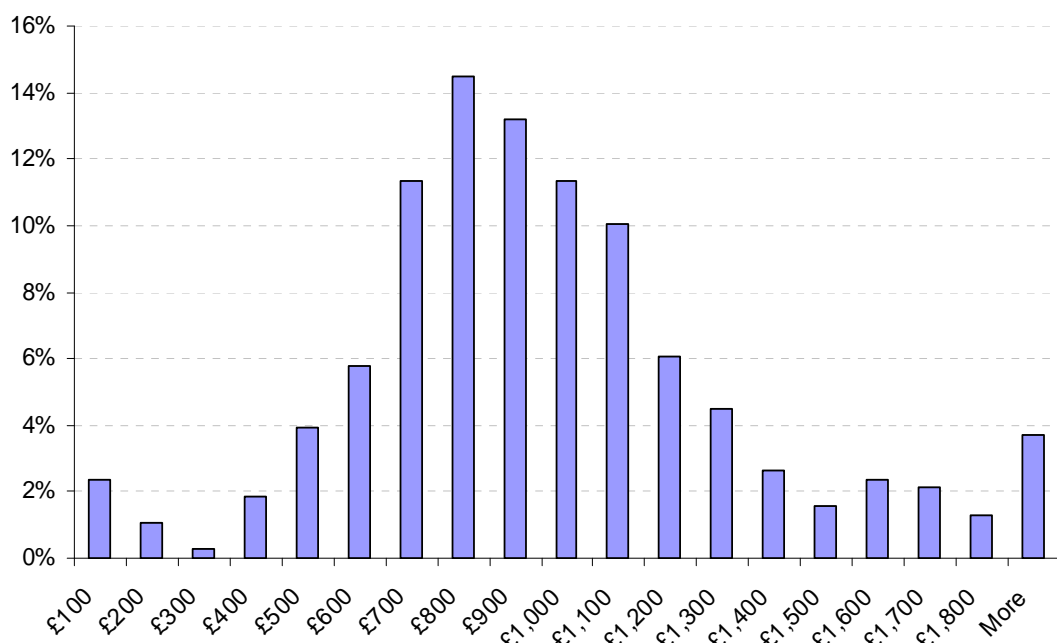
	Expenditure per dwelling
All maintenance	£980
Routine maintenance	£650
Planned maintenance	£330

As with local authority landlords, there is significant variation in the amount spent on maintenance across different housing associations. The diagram below illustrates the dispersion by plotting the percentage of housing associations whose average maintenance expenditure falls into different brackets e.g. between £500 and £600 per unit. This illustrates that whilst housing associations spend an average of around £1,000 maintaining each dwelling, some landlords spent very little on repairs, whilst others spent much more.

<sup>5</sup> TSA, Housing Association Global Accounts 2010, [http://www.tenantservicesauthority.org/upload/xls/Global\\_Accounts\\_data\\_2010.xls](http://www.tenantservicesauthority.org/upload/xls/Global_Accounts_data_2010.xls)



**Chart 2: Distribution of average maintenance expenditure across housing associations**



Housing associations that manage a larger number of dwellings tend to spend somewhat more on maintenance expenditure (per unit) than do associations managing fewer dwellings. The table below presents a breakdown of expenditure according to size of the landlord.

**Table 2: Average maintenance expenditure per dwelling, by size of landlord**

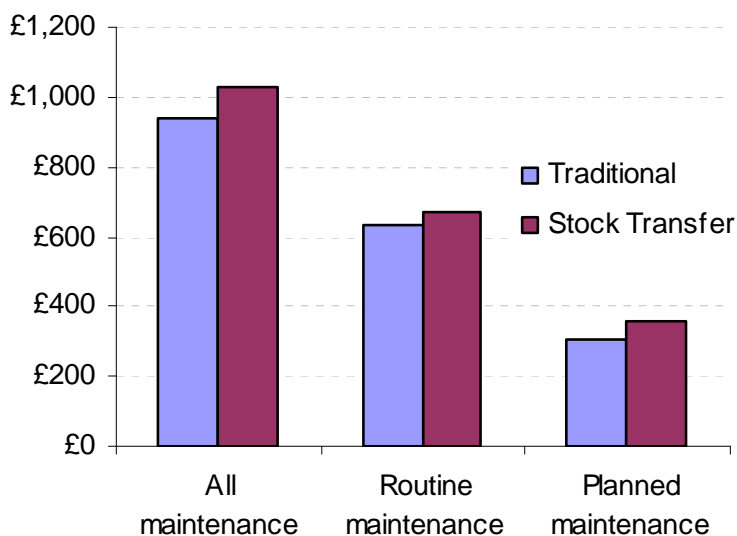
No. dwellings	Maintenance expenditure		
	Total	Routine	Planned
Under 2,500	£850	£620	£230
2,500 - 4,999	£920	£630	£280
5,000 - 9,999	£950	£630	£320
10,000+	£1,030	£680	£360

However, size alone can explain only a small percentage of the variation in average repair costs across landlords. It is by no means always the case that larger landlords spend more per dwelling on maintenance; there are large differences between landlords who manage the same number of properties.

Average expenditure on both routine and planned maintenance is higher amongst landlords formed by a large scale voluntary transfer<sup>6</sup> compared to traditional housing associations. This is illustrated below. One of the reasons for greater spend on maintenance by large scale voluntary transfer organisations is that they often pick up a backlog of maintenance. Previous analysis of operating costs undertaken by the Tenant Services Authority suggests that differences in costs gradually disappear over the following five years or so after a transfer.

<sup>6</sup> A large scale voluntary transfer involves the transfer of ownership, and responsibility for managing and maintaining dwellings, from councils to independent organisations.

**Chart 3: Average maintenance expenditure per dwelling at traditional and stock transfer housing associations**



### **DELIVERING MAINTENANCE AND REPAIR SERVICES**

Many maintenance activities are carried out by large, national building firms who are contracted to perform building works on behalf of social landlords. However, many landlords also use smaller, regional and local contractors to carry out maintenance work and some landlords directly employ staff to deliver repairs and maintenance services ‘in-house’.

Information supplied by social landlords suggests that where external building firms are used to deliver maintenance services, contracts often run for five years or longer. In part longer-term contracts are used to secure better relationships between client and contractor but to also enable the contractor to offer competitive prices whilst recovering any investment they need to make in respect of plant, equipment, IT and communications. Contracts may be subject to annual performance reviews or include break provisions but there can sometimes be limited scope to modify either the type or volume of work provided.

Social landlords plan and budget for maintenance and repairs activities over multi-year time horizons. These plans are developed after taking account of the type and condition of stock in the baseline, feedback from routine inspections and historical expenditure and activity profiles. Repairs budgets are also informed by local circumstances and landlords’ policies regarding service provision. As well as planned works, tenants report any repairs that are needed to their landlords e.g. when fixtures or fittings fail or drop below an acceptable standard. These tasks are generally assigned to maintenance contractors or service providers on an ongoing basis.

### **Analysis of Option 2 – ‘set a broad framework for tenant involvement’ (preferred)**

#### **WHAT FORM MIGHT TENANT CASHBACK TAKE?**

The preferred option provides for a broad framework for tenant involvement in maintenance services. It would require social landlords to offer tenants the opportunity to participate in decisions over maintenance activities and to share in any savings made but would not centrally prescribe how tenants should be involved.

Tenants and landlords would be free to determine how best tenants can be involved in practice, taking account of local circumstances like specific types of maintenance activities that are required on certain estates, levels of interest from tenants and existing maintenance arrangements. Option 2 would afford social landlords the freedom to decide how to operate the Tenant Cashback model and what form this should take; for example, by choosing what level of

control to devolve over different aspects of the maintenance budget. These flexibilities will enable landlords to introduce tailored schemes that are, as a minimum, cost neutral i.e. ensure that savings from tenant involvement are sufficient to offset any running costs associated with schemes.

Enabling decisions to be taken locally means that Tenant Cashback schemes could take on a wide variety of different forms. Pilot areas will explore the practical implementation of different Tenant Cashback models, covering a wide range of tenants including the elderly, vulnerable and employed groups, and a range of different housing types and standards.

Already several different models have been proposed – from tenant involvement in preventative maintenance surveys, to deciding what work gets done and when this occurs, to carrying out various types of maintenance within their homes, to creating opportunities for tenants to play a part in community projects.

The impacts of the preferred option will depend upon the nature of the schemes that are introduced by social landlords and on uptake by tenants.

### **WHO WILL PARTICIPATE?**

All of the 3.8 million households who live in social rented housing will have opportunities to be involved in maintenance and repair services and share in any savings made. Some groups of tenants may be more or less able to play an active role in maintenance activities depending, for example, on their physical fitness. However, it is expected that all tenants would be able to influence maintenance services. For instance there will likely be opportunities for tenants to join together with their neighbours, family and friends.

Landlords will develop schemes tailored to their housing stock and their residents, who in turn will have a choice over whether or not to participate. For this reason it is not possible to predict how many will and will not participate in Tenant Cashback before schemes have been designed. However, we have asked a consultation questions to this effect.

Tenants may want to participate for a number of reasons, such as to improve the quality of works and take more direct responsibility for maintenance of their homes. With regard to financial incentives, tenants will participate where they perceive there is greater potential to make savings in maintenance expenditure and when landlords arrange to share a greater proportion of these savings in a timely manner. This will depend on how much landlords are spending on various types of maintenance and which of these lend themselves to tenant involvement. So the number of tenants choosing to join-in with Tenant Cashback schemes is likely to be heavily influenced by the size of maintenance budgets over which control is shared.

Some landlords' maintenance budgets will be so small that tenants have little financial incentive to participate. For example, if tenants didn't want to participate when maintenance budgets were less than £500 per dwelling per year then this would mean that full Tenant Cashback schemes might be unlikely at 34 large housing associations and five local authority landlords.

Demand for Tenant Cashback might be much greater in areas where landlords spend larger amounts on maintenance e.g. at the 36 housing associations and nine local authority landlords who spent more than £1,500 per dwelling on maintenance. Bigger housing associations tend to have higher maintenance expenditure per dwelling so tenants of large landlords might be keener to participate than tenants of smaller landlords. However the reason some landlords have might higher average maintenance expenditure might be that they are carrying out more complex building works. It might not always be possible for tenants to exercise control over such types of maintenance.

The number of people who choose to participate in Tenant Cashback will also be influenced by how much effort is required to join schemes, influence how budgets are spent and take on

responsibility for maintenance activities. Requirements for tenants to undertake training or demonstrate their capabilities to landlords before carrying out maintenance activities could be expected to deter participation, whilst easily accessible schemes could be expected to attract more members.

### **WHAT MIGHT TENANTS WHO PARTICIPATE DO DIFFERENTLY?**

Social tenants could conceivably play many roles in planning, commissioning and delivering both routine and planned maintenance. The average amount of maintenance across all social housing is £1,000 although, as discussed above, this can include major repairs tasks which might be less well-suited to tenant involvement and maintenance requirements will differ significantly from one property to another. The *Schedule of Rates* prepared by the National Housing Federation catalogues activities that are required to maintain social housing<sup>7</sup>. This suggests that even the most willing tenants are unlikely to be in a position to take control of the entire maintenance budget concerning their property. Nevertheless there will be many areas where tenants are well placed to play a part in maintenance services.

Some examples are given below to illustrate the kinds of responsibilities that tenants could take on, and the budgets that might be involved, when Tenant Cashback schemes are in operation. These are by no means inclusive of the full range of activities where tenants might be involved, nor will they be applicable to every household (qualifications, skills and equipment may be prevent tenant involvement in certain tasks). Many tenants could conceivably undertake activities such as:

- Painting and decorating – both interior and exterior walls, fences and other surfaces. Employing a professional to give a normal size room one coat of paint can cost £160 for a days' labour if the job is relatively straightforward. If preparatory work, such as stripping old wallpaper from the walls is required, then the cost of the job can easily double this. Many tenants will be capable of carrying out some or all of this work themselves.
- Ground maintenance (where this falls within landlords' responsibilities). This may include gardening work, cleaning and maintaining exterior building components, clearance of driveways and side paths. Many such activities only require basic tools and skills. Tenants may be able to avoid the need for several hours of labourers' time by carrying out these activities themselves and landlords might seek to reward households who contribute to well-kept neighbourhoods, particularly if this can contribute to reductions in vandalism and prevent the need for remedial works in future.
- Simple repairs to fittings, such as changing fuses, replacing light-bulbs, fixing problems with household appliances or door hinges etc. Callout charges for electricians and other skilled tradesmen can be high, even where replacement parts are inexpensive and the repairs are simple to carry out.

The examples above touch on some of the many types of maintenance tasks that social tenants could carry out themselves without taking on more difficult and potentially dangerous activities such as servicing gas boilers or rewiring electrics.

### **WHEN IS TENANT CASHBACK LIKELY TO BEGIN TAKING EFFECT?**

Social landlords will be required to offer opportunities for tenants to be involved in maintenance services from April 2012. Tenant Cashback schemes are likely to be introduced gradually, following consultation between tenants and landlords, and as the specifics of schemes are explored.

Existing contracts between social landlords and building maintenance firms may have a bearing on the timescale over which Tenant Cashback schemes are rolled-out because it may be

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<sup>7</sup> <http://www.m3h.co.uk/go/maintenance/schedule-of-rates>

impractical to amend these to be consistent with greater tenant involvement before they reach their natural endpoint. For example, if all landlords had five year contractual agreements in place for maintenance works then we might expect around 20 per cent of landlords to be in a position to offer Tenant Cashback schemes in each of the financial years from April 2012 to 2017.

### **WHAT ARE THE MAIN COSTS AND BENEFITS?**

Key sources of cost and benefit from Tenant Cashback are described in detail below but impacts are not quantified because the preferred option entails a very localist approach: giving landlords discretion to tailor schemes to local circumstances.

We are seeking further evidence on the costs and benefits of tenant cashback models and invite readers to submit such evidence using the contact details set out in the consultation document.

### **BENEFITS OF PREFERRED OPTION (2)**

#### ***1.) Enabling tenants to exercise greater choice is likely to increase their wellbeing***

Repairs and maintenance budgets are used to carry out all kinds of building works and maintenance. Preferences over how budgets are spent differ from one household to the next and may vary systematically across different areas of the country. As a result of this heterogeneity, enabling social tenants to exercise greater choice is likely to increase people's satisfaction with the repairs process and with the condition of their housing.

These benefits to social tenants are likely to be of a greater order of magnitude in circumstances where social landlords are spending more on cyclical and planned maintenance and when Tenant Cashback schemes enable tenants to influence more decisions over how these are carried out.

#### ***2.) Direct tenant involvement could cut costs by simplifying repairs and maintenance processes***

Social landlords currently incur significant costs as a result of the administrative, managerial and financial activities they undertake in order to deliver effective maintenance programmes on behalf of their tenants. Sources of cost include: placing orders, checking work in progress and on completion, raising and validating invoices for works. Research has shown that these activities account for a comparatively large share of total costs in the case of low value, responsive repairs<sup>8</sup>. Indeed they can account for almost half of overall maintenance expenditure on this category of work.

There is scope for social landlords to make savings in their budgets by taking steps to simplify the repairs process – focusing on getting the work done with as few accompanying steps as possible. This is particularly the case with low value maintenance activities where callout changes form a significant share of overall costs. In the past landlords have had some success at this by adopting partnership approaches to relationships with their contractors and using direct labour organisations when appropriate. Tenant Cashback offers opportunities to take this further by enabling some repairs to be carried out at source, without the involvement of multiple parties and the costly administration this entails.

Making it possible for tenants to remedy more problems themselves or to commission and oversee their own maintenance work, rather than reporting issues to landlords who must then engage contractors to deal with problems, could generate substantial savings by 'cutting out the middle man'. Tenant Cashback schemes that are designed to simplify the processes involved in maintenance and avoid the need for these types of activities are expected to deliver the

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<sup>8</sup> Prior and Nowak (2004), *Achieving cost effective responsive maintenance*, Building Research Establishment

greatest administrative savings. However, if schemes just replace one set of bureaucratic procedures with another then they are unlikely to generate much in the way of administrative savings. Careful consideration of these issues is therefore warranted during the development of schemes.

### **3.) *Tenant Cashback could create opportunities for tenants to procure materials and services more cheaply for local tradesmen to deliver more services***

Social tenants will have the opportunity to source and procure the materials required for maintenance and exert more choice over who carries out work. Some tenants may know of qualified tradesmen based locally who are able to complete building tasks and maintenance more cheaply than larger service providers. Where this is the case it may enable maintenance to be carried out at lower cost than if landlords or their standard contractors had done the work.

Savings will depend on how much is initially being spent on the services that tenants assume responsibility for and on how efficient landlords are at procuring them i.e. whether, through large-scale contracts, they are paying higher rates for some tasks than could be achieved through individual bargaining. In many cases it may be difficult for tenants to find lower prices on maintenance tasks and materials because large contractors may well have the benefits of 'economies of scale' – making savings through buying in bulk and streamlining the provision of frequently repeated tasks. Likewise, landlords will have a depth of knowledge and experience in choosing and procuring materials and services that offer the best value for money in different circumstances. So while there is undoubtedly scope for tenants to make savings we do not expect landlords and their contractors to be undercut across the board.

As well as reducing the overall cost of maintenance, letting tenants exercise more choice over who carries out work could mean that local tradesmen, tenants, their families and neighbours are the ones to benefit from maintenance budgets. For example, tenants might substitute their own labour for that of a professional painter when their houses require redecorating and be able to pocket all or part of the consequent savings. Giving low income tenants the chance to share in any savings from maintenance budgets might be regarded as desirable from an equity standpoint. The extent to which Tenant Cashback brings about changes in the beneficiaries of maintenance budgets will be determined primarily by how big a say schemes give tenants over how maintenance gets done. The capacity of local people to carry out works at competitive rates will also matter, as will the extent to which tradesmen from the local area are already contracted to carry out works.

### **4.) *Increasing competition amongst providers of maintenance services could reduce costs***

By opening up maintenance budgets from centrally procured contracts to a wider range of potential suppliers, the proposals could increase competition amongst providers, thereby driving down costs. The tendering processes already used by social landlords when letting maintenance contracts mean that service providers are already exposed to a significant degree of competition so there may be limited scope for savings. However, greater tenant involvement is likely to be pro-competitive if it breaks-up large maintenance contracts since this would reduce one of the barriers to entry faced by independent tradesmen and small-scale building firms.

### **5.) *Tenants are likely to take steps that reduce expenditure on maintaining social housing as a result of being able to share in savings***

Maintenance expenditure could fall if rewarding tenants for cost saving measures leads to behavioural changes that reduce the amount of work needed to maintain the quality of social housing. Social tenants are often better placed to know what work needs doing to their homes than their landlords but do not have the same incentives to contribute to their upkeep because they do not own the properties. Tenants who stand to gain financially from the low-cost upkeep of their dwellings are likely to take better care when using properties and are less likely to cause wear and tear or damage fixtures and fittings. Tenant Cashback schemes will also give social

renters financial incentives to respond to the first signs of problems and take preventative steps that reduce the need for building works. These positive behavioural changes could reduce the amount of investment required to keep social housing in decent condition.

An example of the sort of preventive measure that tenants might be inclined to take when they have reason to be concerned about the costs of maintaining housing components is to fix a minor leak in a water pipe before it develops into something worse and causes damage to flooring and plasterwork. Some tenants may be able to purchase sealant to repair the pipe themselves, at little cost. Others might commission a plumber to replace the pipe before the problem escalates and requires much more effort to put right, or simply report the leak to landlords at an earlier stage than they otherwise would.

The savings that could be made by aligning tenants' incentives more closely with those of their landlords will depend on how much scope there is for changing tenant behaviour. It may be the case that existing incentive structures already give tenants cause to look after their homes e.g. to avoid living in poor conditions. Savings are likely to be greater if tenant behaviour is more sensitive to the sums of money at stake – or to the sense of ownership and responsibility this engenders – and if landlords are able to identify (monitor) and reward positive actions more effectively.

Likewise, giving social tenants new incentives to maintain their homes is expected to produce more savings in circumstances where there is greater scope to take preventative actions and treat emerging problems early on. This will depend on the characteristics of individual properties and the types of maintenance required.

#### **6.) Landlords might make improvements that deliver further efficiencies from maintenance programmes**

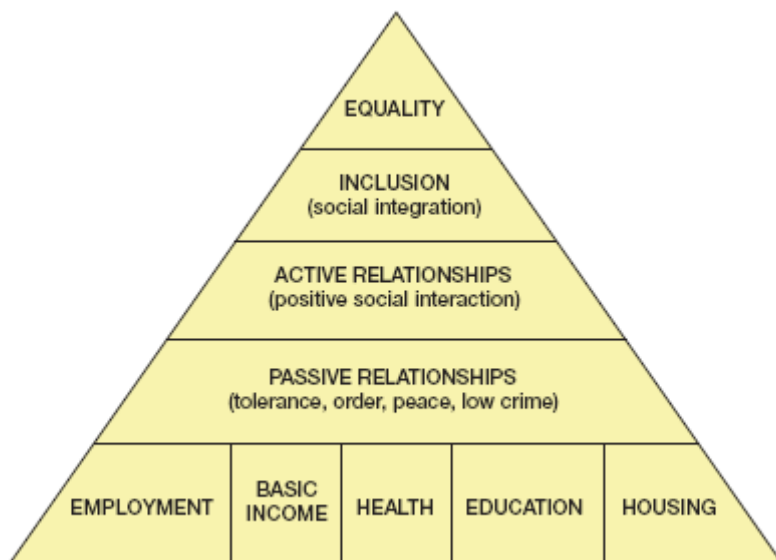
Empowering tenants could raise maintenance standards and cut costs by creating stronger incentives for social landlords to make best use of repairs and maintenance budgets. This will be helped by greater transparency of repair budgets in the annual report. The likelihood of savings, and their scale, will depend on the extent to which Tenant Cashback schemes help make landlords more accountable for delivering maintenance services. These benefits will also hinge on whether there is scope to making savings in maintenance programmes through more efficient planning and commissioning of building works.

#### **7.) Tenant involvement in such schemes could help build social cohesion**

Tenant Cashback models may help bring about improvements social cohesion, a multi-faceted concept covering several kinds of social phenomena. A paper published by ODPM (now DCLG) in 2006<sup>9</sup> outlines a hierarchy of inter-related dimensions that encapsulate social cohesion:

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<sup>9</sup> [www.communities.gov.uk/publications/regeneration/state4](http://www.communities.gov.uk/publications/regeneration/state4) (State of the English Cities, Vol 1, pp110)



Involving social tenants more closely in repairing and maintaining their homes could advance notions of equality within multi-tenure estates, promote social inclusion, provide a platform for active relationships to develop within communities, increase housing values and even reduce income inequalities.

In some cases giving tenants an opportunity to actively seek out alternative ways of carrying out maintenance, and to discuss these with their neighbours, could afford them a chance to meet new people and develop social networks. US research by Granovetter (1973 and 1995) found that social networks can provide people with advice, job leads, strategic information and letters of recommendation. Becoming involved in schemes could also enable low-income social tenants to reap financial benefits and improve their living standards.

Housing is one of the fundamental pillars enabling social cohesion. Tenants will have a greater chance of becoming more involved in the upkeep and maintenance of their home, allowing for a greater sense of responsibility and homeliness. Tenants will also have incentives to maintain their dwelling to a higher standard reducing low standards of living over time, with consequent benefits to the household and others living nearby.

Evidence suggests social cohesion can have significant benefits in a number of different areas, both to communities and to the individuals living within these communities<sup>10</sup>.

## **COSTS OF PREFERRED OPTION (2)**

### **1.) *Tenant Cashback schemes will entail setup costs for social landlords***

Social landlords will incur costs as a result of the need to devote staff resources to the development of options for involving their tenants in maintenance services. Not all such costs will be additional – other regulatory requirements will overlap to some extent – but putting greater emphasis on tenant involvement might cause landlords to devote more resources to these functions. For example they might choose to consult with tenant groups.

Designing schemes that meet the needs of tenants and fit with existing maintenance policies and practices is likely to require input from a range of staff with expertise of landlords' different functions. It will take time to develop workable schemes; how much will depend on local decisions about the form Tenant Cashback should take.

<sup>10</sup> DCLG (2009) [www.communities.gov.uk/publications/communities/economiccasecohesion](http://www.communities.gov.uk/publications/communities/economiccasecohesion)



Other setup costs to landlords could come from the need to inform tenants of new opportunities to engage with maintenance programmes. This includes the cost of publicity materials along with staff time spent contacting tenants and responding to enquiries. Registering tenants onto schemes and providing them with the information they need to participate could entail a variety of costly administrative activities too.

Depending on the type of schemes offered there may also be a need for landlords' agents to survey the condition of individual properties and modify IT and other systems in order to be able to monitor actions taken by tenants and apportion savings appropriately.

The magnitude of setup costs will depend on the nature of tenant involvement offered by social landlords so they will vary significantly from one landlord to another. They will be borne by landlords in the first instance but we expect that Tenant Cashback schemes should, as a minimum, be cost neutral over the medium term i.e. setup costs should be offset by savings in maintenance budgets. It will be down to individual landlords to ensure that cost pressures are minimised through choice of options appropriate to local circumstances. If landlords are unable to make sufficient compensating savings to cover the costs of Tenant Cashback – perhaps because they already operate highly efficient maintenance programmes and/or have very small maintenance budgets – then we would expect that they identify lower cost options for tenant involvement.

## ***2.) Social landlords may also face ongoing costs from running Tenant Cashback schemes***

Social landlords will also bear the ongoing costs of running Tenant Cashback schemes. These could stem from staff resources consumed by administering schemes, including the need to monitor maintenance budgets and inspect property condition in some cases.

In some cases disputes may arise between tenants and landlords over the apportionment of maintenance savings between the parties, or on the scope/quality of completed work. If this occurs then investigating and resolving the dispute will involve some costs, whether this is done through a process of dialogue or more formal complaints processes.

Operating costs will depend on the nature of schemes developed by landlords and the number of tenants that opt to participate so could vary significantly from one organisation to another. Over the medium term we expect that these costs should be met by offsetting savings in maintenance budgets so that Tenant Cashback schemes are cost neutral and do not put upward pressure on rents.

There is a risk that landlords operating Tenant Cashback schemes will incorrectly estimate the value of savings achieved by individual tenants though, increasing maintenance expenditure overall and/or rendering schemes unworkable in the long-run. Tenants will be more keen on participating in schemes if they anticipate maintaining their homes will cost less than 'budgets' estimated by landlords on the basis of average costs. This 'adverse selection' is potentially problematic because unless landlords can estimate their counterfactual expenditure on maintaining properties, or are able to screen tenants somehow, they will be unable to calculate how much is actually being saved as a result of Tenant Cashback. As a result they could lose money by paying out 'savings' where there are none. The design of individual Tenant Cashback schemes will need to address this potential risk where it arises on a case-by-case basis.

## ***3.) Publishing an annual report containing information on repair and maintenance budgets could raise costs for social landlords***

To help tenants judge whether local schemes are sufficiently ambitious, social landlords will be required to publish information about repair and maintenance budgets in their annual report. Where landlords do not already publish this information they may face some costs in collating, analysing and publishing the material.

However the requirement for greater transparency of maintenance expenditure is only one element of a broader duty on social landlords, recommended by the Review of Social Housing, to support effective scrutiny by publishing performance information. The only additional cost for social landlords is likely to be from running-off appropriate figures on maintenance expenditure from their systems and including these in annual reports.

**4.) *The Housing Regulator may have to devote resources to enforcing the policy***

Enforcement costs associated with Tenant Cashback are expected to be negligible as it will be possible for the Housing Regulator to make sure that tenant involvement extends to maintenance services as well as other areas of housing provision without undertaking additional activities. On rare occasion the Regulator might need to take action against a landlord for non-compliance.

**5.) *Less standardisation may cause the cost of carrying-out maintenance and repair activities to rise over the longer-term***

Many landlords minimise maintenance costs by utilising standard fixtures and fittings across large parts of their housing stock to simplify repair processes. For example, landlords may fit standard bathroom and kitchen furniture, plumbing and electrical materials so that contractors know what spare parts and tools are required for many jobs.

Once tenants become more involved in maintenance services they may be able to decide what replacement fixtures and fittings are used. This may make it more difficult for tradesmen to do a 'quick job' in the future, adding more time and costs to maintenance processes. These extra costs for contractors could be passed on to landlords and ultimately borne by tenants. The extent of these costs will depend on how much freedom tenants have over the choice of materials used for different maintenance activities (so they are likely to be greater when tenants are better able to match works with their individual preferences). We expect landlords to mitigate against such risks through the careful design of schemes.

**6.) *Economies of scale may be lost if maintenance services become more fragmented***

Tenant Cashback schemes are likely to reduce the volume of maintenance work carried out under landlords' procurement arrangements with building contractors. If economies of scale are present in the delivery of maintenance services then this could increase per unit costs of maintaining social housing for landlords. This would reduce the net savings from Tenant Cashback. And if the benefits from tenants partaking in Tenant Cashback schemes did not outweigh this cost then landlords would be more inclined to not to involve tenants in ways that reduced volumes of work carried out under existing procurement arrangements. We expect landlords to mitigate against such risks through the careful design of schemes.

**7.) *Maintenance carried out by tenants could be of a low standard or cause damage to properties, reducing the value of the housing stock or necessitating additional investment from landlords***

Some tenants may not complete maintenance tasks in the correct manner or to a sufficiently high standard. Others may opt for cheaper, less well known material to gain more savings at the risk of insufficiently robust and long-lasting repairs. For instance a tenant may replace a certain fitting with a cheaper issue resulting in quicker 'wear and tear' needing it to be replaced again sooner than what would have been with the standard fitting.

This could inadvertently create more work by requiring more repairs to be carried out in future to make good the work (or problem). This may lead to an increase in costs for landlords or, if remedial work is not carried out, reduce the value of the social housing stock as its quality declines. The likelihood and magnitude of these costs depends upon the procedures that social landlords put in place to monitor the quality of work carried out by tenants. We expect landlords to mitigate against such risks through the careful design of schemes.

## RISKS OF PREFERRED OPTION (2)

### **8.) Greater tenant involvement in maintenance could increase health and safety risks**

Tenant Cashback might lead to increased risk of injury by encouraging tenants to engage in maintenance tasks where they are not as well equipped or highly qualified as professionals who currently carry out the work. Tenants may also be over ambitious in the work they attempt to carry out or use sub-standard materials in an attempt to gain the highest level of savings possible. Both could increase risks to tenants' health and safety. We would not expect social tenants to be at greater risk than those partaking in maintenance or repairs in privately owned housing.

As well as harming tenants this might create costs for landlords if they are liable for tenants welfare in particular areas – either because additional safety checks might be needed or because damages might be awarded if injuries do occur. We expect landlords to mitigate by taking a common sense approach against such risks to health and safety through the careful design of schemes, including appropriate delegation of responsibilities, explanation of the risks involved and provision of training and other support.

### **Analysis of Option 3 – ‘centrally prescribe how tenants should be involved’**

Option 3 is for Government to make it a mandatory requirement for all social landlords to devolve control over certain parts of the repairs and maintenance budget to tenants. This prescriptive option would ensure that all social landlords offered Tenant Cashback schemes (though it would not require tenants to participate in them). The date at which social landlords would be required to have schemes in place would depend on Parliamentary timetabling but it is unlikely that changes to the law could be commenced before mid-2012 at the very earliest.

This would allow all tenants who wish to become involved in Tenant Cashback schemes an opportunity to do so. As discussed above, demand for Tenant Cashback from the 3.8 million social rented households will depend on the benefits that individuals would derive from participating (e.g. financial savings and more choice over works) and the amount of effort they must expend to do so. These are big unknowns and the number of tenants that would choose to be involved has not been estimated although we expect it to be similar (or slightly greater) than the preferred option (2).

Unlike the preferred option, landlords would have limited flexibility over the schemes they offered. The main requirements for tenant involvement would be prescribed centrally. As a minimum these are expected to include giving tenants the right to influence decisions over how certain types of maintenance, e.g. internal decoration and refurbishment, are carried out. Social tenants would be entitled to carry out a variety of maintenance tasks themselves and rules would specify how they should share in any savings made.

For the most part the costs, benefits and risks from option 3 are similar in kind to those from the preferred option (2) although they are of a different magnitude. Key differences in costs are noted below.

Option 3 would oblige all landlords to offer similar Tenant Cashback schemes. This might mean that its benefits are higher than from the preferred option (because more social tenants are able to access Tenant Cashback schemes) but this is uncertain because there might not be any more demand from tenants. On the other hand the costs of option 3 are sure to exceed those of the preferred option because all social landlords will be required to set up and operate Tenant Cashback schemes. In many of the cases where landlords would be compelled to offer Tenant Cashback schemes they would not otherwise have opted to run, we expect the savings from tenant involvement in maintenance would be insufficient to cover these additional costs. As a

result we judge it highly likely that option 3 represents worse value for money than the preferred option.

### **COSTS OF OPTION 3**

#### **1.) *Tenant Cashback schemes will entail setup costs for social landlords***

All social landlords will incur costs as a result of the need to set up Tenant Cashback schemes that comply with legislative requirements. Some types of setup costs, e.g. from consulting with tenants over how best to design schemes, might be lower than from the preferred option because landlords would have less flexibility over scheme design. However, overall setup costs are likely to be greater since every social landlord would need to operate a Tenant Cashback scheme that offers a high level of involvement in maintenance services, regardless of the level of interest from tenants etc.

#### **2.) *Social landlords will face ongoing costs from running Tenant Cashback schemes***

All social landlords will incur ongoing costs of running Tenant Cashback schemes. Unlike the preferred option, we expect that for some landlords these costs would exceed compensating savings in maintenance budgets – meaning that Tenant Cashback would be costly to landlords and would ultimately put upward pressure on social rents.

The risk is also greater that landlords forced to operate Tenant Cashback schemes, irrespective of their ability to predict and monitor maintenance, will incorrectly estimate the value of savings achieved by tenants. Thus, giving social landlords less discretion over how to involve tenants is likely to exacerbate problems such as ‘adverse selection’ and lead to increased overall maintenance expenditure.

#### **3.) *Less standardisation may cause the cost of carrying-out maintenance and repair activities to rise over the longer-term***

Social landlords who are managing to successfully minimise maintenance expenditure by standardising fixtures and fittings throughout their stock would be compelled to offer Tenant Cashback schemes even if these complicate maintenance processes and thereby raise costs.

#### **4.) *Economies of scale may be lost if maintenance services become more fragmented***

Even social landlords who are making significant savings in maintenance expenditure by exploiting economies of scale in the delivery of building works would have to offer Tenant Cashback schemes. This might cause them to forgo these efficiencies and increase overall maintenance costs.

### **Summary**

The benefits from increasing tenant opportunities in the involvement of maintenance and repairs services go further than sharing in the financial savings that could result from making better use of tenants’ knowledge and skills. Over-reliance on the landlord can contribute to dependency and a lack of opportunities for tenants; the Tenant Cashback model will develop practical skills, improve self-confidence and encourage tenants to become more self-reliant in looking after their homes. More widely it will promote co-operation among neighbourhood groups and communities to help each other out (e.g. elderly tenants) or control budgets for the benefit of communal areas.

The preferred option (2) gives social landlords the flexibility to evaluate the merits of different approaches to tenant involvement and ensure that the costs are justified by benefits on a case by case basis. For this reason we expect benefits of greater tenant involvement will outweigh the associated costs, including scheme setup and running costs and any increases in the costs

of commissioning building work as a result of foregone economies of scale or loss of standardisation.

Option 2 is preferred over option 3 ('centralised prescription ') because setting a broad framework for tenant involvement will afford landlords the scope to make local decisions over what form of Tenant Cashback models are best suited to the interests of tenants, taking into account the particular circumstances of the area and condition of housing stock. Our analysis suggests that under option 2 tenant involvement will be more cost effective: tenant engagement could still yield considerable benefits, whilst costs of Tenant Cashback schemes will be lower than if these were centrally prescribed because they will be able to take account of local circumstances, such as the amount of interest from tenants, future maintenance requirements and economies of scale.

## Annex 1: Post Implementation Review (PIR) Plan

A PIR should be undertaken, usually three to five years after implementation of the policy, but exceptionally a longer period may be more appropriate. If the policy is subject to a sunset clause, the review should be carried out sufficiently early that any renewal or amendment to legislation can be enacted before the expiry date. A PIR should examine the extent to which the implemented regulations have achieved their objectives, assess their costs and benefits and identify whether they are having any unintended consequences. Please set out the PIR Plan as detailed below. If there is no plan to do a PIR please provide reasons below.

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

The Department is committed to monitoring the impacts of changes designed to increase tenant involvement in repairs and maintenance services as these take effect.

**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?]

We will seek to identify examples of good practice for involving tenants, including from amongst landlords that are piloting Tenant Cashback models, and share this knowledge more widely. Existing data sources will be used to track any changes in social landlords' maintenance and repair budgets.

**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]

The methods used to review the policy will be developed in more detail at a later stage. The approach that is taken will be proportionate to the policy and seek to minimise burdens on landlords. The review might include engaging with landlords who pilot Tenant Cashback models to capture and disseminate lessons learnt. Existing data sources are likely to be used to monitor changes in landlord expenditure on maintenance.

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

Baseline data on maintenance and repairs expenditure are provided by several existing data sources: DCLG's Business Planning Statistical Appendix and Housing Revenue Account returns provide information on the local authority sector whilst the Tenant Services Authority's Housing Association Global Accounts provide similar data relating to housing associations.

**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 success of the policy will be determined with reference to the objectives of giving social tenants the opportunity to play a greater part in maintaining their homes and the financial savings realised by tenants. Indicators of success will be developed in more detail at a later stage but could include the number of social landlords who have consulted tenants on ways of being more involved, the number who have adopted variants of the Tenant Cashback model and tenant views on their ability to participate.

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

We will consider whether any changes are required to existing information collection arrangements as the preferred approach to post implementation review is developed in further detail. In doing so the Department will be mindful of placing reporting burdens on social landlords.

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

N/A

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