

# A Study to Advise on the Allocation of Social Housing Grant





Further copies of this document can be obtained free of charge from:

Helen Wyatt

Housing Directorate

Welsh Assembly Government

Cathays Park

Cardiff

CF10 3NQ

Tel: (02920) 821718

E-mail: [helen.wyatt@wales.gsi.gov.uk](mailto:helen.wyatt@wales.gsi.gov.uk)

Website: <http://www.housing.wales.gov.uk>

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# 1 Introduction

Social Housing Grant (SHG) is the principal capital grant used by the Welsh Assembly Government to assist registered social landlords (RSLs) providing affordable housing through rent and assisted home ownership (and support for special needs provision). Similar grant mechanisms operate in England and in Scotland. In all cases, however, the grant is allocated by first determining a national level of resources that will be devoted to a development programme, subtracting any top-sliced elements for special initiatives, and the remaining total then has to be distributed across the country to local authorities (in Wales) or some other sub-regional bodies (e.g. in Scotland, regional offices of Communities Scotland or councils with housing development funding powers). The present report to the Welsh Assembly Government considers the second part of this issue more closely: how does an organisation such as the Welsh Assembly Government deliver a rational, fair, targeted allocation of SHG that distributes funds geographically?

The research is conditioned by specific objectives set out in the original tendered research brief. The aim of the project was to commission independent advice on how SHG could be allocated so that:

- 1 The geographical pattern of allocation reflects the absolute level, severity and spatial intensity of those forms of housing need which SHG can be used to alleviate; and
- 2 The approach to allocation achieves maximum impact in meeting those

forms of housing need to which SHG is designed.

In other words, as the original research brief stated, ‘the approach to allocation sought is therefore one which is both effectively targeted spatially and thematically and which is efficient in meeting need’.

The present system of grant distribution has been accused of ‘poorly reflecting relative levels and intensity of need for social housing investment in different parts of Wales’. As a consequence, a working group was set up in 2002 involving the Welsh Local Government Association (WLGA), the Welsh Federation of Housing Associations (WFHA) and the Assembly Government, with the aim of developing a formula-based approach to allocation that would better reflect the need for investment in social housing through SHG. No consensus was achieved as a result of the consultative exercise, despite formula-based options arising from the working group’s deliberations. This report will provide independent advice into the next stage of revising proposals for future implementation across Wales.

## ***Social Housing Grant in Principle and in Practice***

The purpose of capital grants to housing is normally to assist households who cannot have their housing needs met by the market, either for general housing or for some form of special requirement such as supported housing, accessible or adapted housing. In the general case, the grant reduces the cost of provision and also the required rent that will fund capital costs,

repairs, maintenance and a sinking fund. Housing costs for new provision may be particularly high because of land costs or remoteness or because of high demand and land constraints.

The important point regardless of the reason is that the unmet need stems from a form of market imperfection or from inadequate household resources. There are extensive debates about the efficient and appropriate forms of intervention to provide non-market housing (and indeed other forms of subsidised welfare). Clearly, the UK has moved away from bricks and mortar subsidies to greater reliance on benefits and personal subsidies. Nonetheless, the continued existence of SHG and its use in combination with Housing Benefit indicates that it is still viewed as an effective way of meeting unmet housing need.

Need is a subjective concept with a number of different definitions. In a normative sense, it is related to minimum standards (or norms) defined by national or local governments or other groups of professionals. Professionally defined needs can be distinguished from felt needs, that is, individual expressions of want for a given level of housing. Some individually expressed needs might be readily convertible into effective demands, while others might not, if households do not have the resources to satisfy them. Equally, expressed needs might be at odds with normative needs, and thus remain unsatisfied unless the household has adequate resources to meet these needs themselves. Importantly, the normative measurement of need allows providers to prioritise individual cases and ration the housing stock.

The arguments in favour of upfront capital grants to assist in meeting housing need include:

- It allows the funder to exercise considerable control over outcomes through allocation criteria, monitoring and the regulation of providers without having to run provision directly. Competition for funds or for funded projects can also promote the funder's objectives.
- In a similar vein, the funder can choose to top-slice and otherwise redirect parts of the funding to priority areas such as special needs, low cost home ownership or rural housing.
- It can be a direct way of tackling need by ensuring an increase in the supply of below market rent housing where there is excess demand. Arguably, in high demand locations where supply responsiveness is sluggish, this is a more effective way of attacking non-affordability and housing shortage than through personal subsidies alone.
- Niche housing is often not provided by the market or only at high cost so SHG can be used in conjunction with other services such as benefits and supported care to tackle specialist needs in a way that the market could not.
- In principle, the grants could be used to provide new housing or to refurbish existing dilapidated housing, both improving and extending its economic life. The Grant changes the supply of available housing, but may

do this by improving the overall quality, as opposed to the quantity, of the local housing stock.

- Similarly, and in addition to tackling absolute or relative shortages of affordable housing, SHG may also be used as a tool in the wider physical regeneration of areas by allowing RSLs to invest in areas through social housing, low cost housing or area improvement work. In this sense, the purpose of SHG is to ameliorate deprivation, low demand and area decline rather than focus on general housing needs and inadequate market provision. Of course, by providing additional housing in low demand areas, for instance, this adds to the supply of affordable housing more generally and can contribute to wider spatial housing needs.

In practice, SHG is used to meet both general housing needs and specific housing needs (including access to home ownership in rural areas), as defined and demonstrated within local authority/RSL programmes and operationally defined as acceptable by the Assembly Government under the relevant legislation and statutory instruments.

Resource allocation works by providing local authorities with a sum of money based on a centrally-determined mechanism. Once the money is credited to the councils they have a degree of freedom in how it used to meet local housing needs. This is part and parcel of local democracy but it can lead to tensions that may undermine the logic of a formula-driven resource allocation. For instance, in recent years, increasing amounts of SHG allocations have been used for supported

care, for urban regeneration and other projects that widen the traditional basis of meeting housing need. If a formula linked to specific conceptions of housing and/or people-related need is to be used, then there is clearly a problem if the actual distribution is not used in the way that the formula assumes. This is not to say that there is anything wrong with the ultimate disbursement, just that the basis for the formula is increasingly detached from the ultimate uses of the funding. Anyone looking at revisions to the allocation mechanism needs to be aware of this broadening of the uses that resources are put to.

### **The Current System and Recent Allocations**

For the fiscal year 2002-2003, the Assembly Government distributed £51 million across the 22 Welsh local authorities (see Table 1.1). Annex A to the Consultation materials sent out in October 2002 summarises the process by which Social Housing Grant and its predecessor were distributed to local authorities since the introduction of the mixed funding regime in 1989. These mechanisms can be summarised as follows:

- 1989-1990 to 1998-99 (the 'Tai Cymru' period): RSLs submitted bids to Tai Cymru and allocation was on the basis of which bids fitted best with the priorities of housing need indicated by Local Authorities' Housing Strategy and Operational Plans (HSOP).
- 1999-2000 (Welsh Assembly Government commences): councils bid to the Assembly for schemes put forward by RSLs and the Assembly allocated schemes according to available resources. SHG was

distributed between councils by the Assembly by first taking the average allocated over the last four years and expressing this as a percentage of the available programme.

- 2000-2001: the Assembly moved to a scheme whereby SHG was distributed on the basis of 80% of available resources allocated according to the average distribution over the last two years and the remaining 20% according to the size of bids.
- 2001-2002: the allocation changed again, this time to a formula agreed with the Welsh Federation of Housing Associations (WFHA) and the Welsh Local Government Association (WLGGA). Eighty per cent of funding was based on a two-part formula: 70% according to the programme share in 1999-2000 and 10% by population. The remaining 20% was distributed by submitted bids made by councils on behalf of grant-funded schemes that met specific criteria.
- 2002-2003: the Assembly dispensed with individual bids and relied primarily on a formula developed on the programme share from 2001-2002.
- 2003-2004: after the inconclusive consultation exercise, the geographical distribution from the previous year was maintained.

The main criticisms of the way SHG was distributed involved: first, in the period prior to the Assembly reliance on the variable quality of RSL bids and HSOP documents (Gibb and More, 2002). Second, since 1999, insufficient account has been taken of indicators of the relative need for SHG investment and in practice outcomes tended to maintain the spatial status quo: too much of the focus was on historical expenditure trends. Third, it could also be argued that whatever system was put in place, the allocation mechanism was undermined by ad hoc minor annual adjustments.

It is in this light that one should acknowledge the attempts made to move the arrangements on to a robust basis through the recent consultation exercise. The working group came up with two options for reform:

- A socio-economic formula-driven allocation based on a basket of indicators with two distinct needs components (housing needs and a people-based component). This was assessed under different weightings of these components.
- A per capita distribution based on the 2001 Census (see Table 1.1).

Table 1.1 SHG Allocation, 2002-2003, £m, cash

<i>Unitary local authority</i>	<i>Population, Census, 2001<sup>1</sup></i>	<i>Allocation (£)</i>
Isle of Anglesey	68,000	1,100,000
Gwynedd	111,900	2,200,000
Conwy	99,000	1,620,000
Denbighshire	86,700	2,400,000
Flintshire	138,600	2,220,000
Wrexham	119,200	1,290,000
Powys	112,200	1,460,000
Ceredigion	61,200	1,260,000
Pembrokeshire	107,400	2,600,000
Carmarthenshire	165,100	2,230,000
Swansea	229,300	5,550,000
Neath Port Talbot	142,700	2,130,000
Bridgend	126,200	2,480,000
The Vale of Glamorgan	113,200	1,760,000
Cardiff	286,800	7,740,000
Rhondda Cynon Taff	238,400	2,960,000
Merthyr Tydfil	60,500	940,000
Caerphilly	171,800	2,720,000
Blaenau Gwent	75,700	350,000
Torfaen	90,700	1,140,000
Monmouthshire	76,500	1,490,000
Newport	132,400	3,360,000
WALES	2,813,500	51,000,000

1 These and other population figures are based on the numbers used at the time of the consultation process and for resource allocation in 2002-2003. These have subsequently been updated and revised and should not be treated as current estimates of population.

Recognising the transitional implications of moving to a new system, the consultation also set out damping measures to smooth the shift to the new system.

No consensus was reached by the consultation. A major part of this research, therefore, required the evaluation of the consultation responses and the models proposed, with particular reference to how one might arrive at valid, robust and feasible measures of housing need for the purposes of SHG allocation.

In this short report, the allocation of funding is examined by conducting several related exercises:

- A critical review of non-housing sub-national resource allocation. There are many methods in different areas of social policy that could be reviewed. Here, we draw on the implications of the mechanisms used in the areas of NHS funding (Scotland), local government finance (England), the UK Needs Assessment and the Barnett formula (UK). (Section 2)

- A critical examination of the present methods of sub-national resource allocation of SHG in Scotland and England, based on literature, secondary material and other grey literature, as well as discussions with key informants involved both directly in resource allocation and those who have scrutinised the systems used. (Section 3)
- A detailed assessment of the Welsh Assembly consultation process carried out in 2002 based on a desk-based review of the material, including consultant responses, and discussions with key informants. Again, key findings and their implications are drawn out for subsequent analysis. (Section 4)
- A synthesis of the material from earlier chapters is pulled together in order to deliver key practical elements of advice for the Welsh Assembly about how to take the process forward. (Section 5)

## 2 General Allocation Systems

### Introduction

It is standard practice in most areas of public sector spending that the allocation of funds between geographic areas is based on a system utilising some measure of relative need. For example, the largest budgets in the UK constituent countries, for local government spending and for health expenditure, are both calculated using a form of relative needs measurement. Such a system is also used in other areas, like the Barnett Formula or in assigning assisted area status throughout Great Britain.

In the UK, allocation systems have typically been created that are intended to adjust finances such that each area should be in a position to provide public services to a similar, or the same, standard as every other area. This equality of service provision is the guiding principal behind such systems and this can best be achieved where need in each area is measured and satisfied to the same extent. Thus, the systems in place tend to adjust for higher needs based on either cost differentials e.g. due to demographic differences or issues of sparsity, or deprivation differentials e.g. number of people on benefits or with special needs.

Thus, the style or form of such a system tends to vary with each different spending area but there are some common elements:

- A basic measure, e.g. based on population
- An adjustment to take into account different **costs** of service provision associated with different areas

- An adjustment to take into account different levels of **deprivation** associated with different areas
- (Further adjustments are sometimes made in relation to **other specific factors** e.g. language and culture.)

These elements are measured using existing data (commonly known as 'secondary data', as it was originally compiled for some other purpose), and compared across each area, to allow a series of relative measures to emerge. These are then weighted and added together in order to reach a final indicator which is ultimately used to allocate funds.

It is not unusual for such 'initial' allocations to be amended by 'transitional' arrangements or by 'ceilings and floors', in order that any period-by-period changes are not so large that they distort an area's ability to provide their historic level of service.

There are alternatives to the above description of how such funds can be assessed and allocated. The principal alternative is through the use of 'primary' data, data collected expressly for the purpose of deciding allocation. Such sources of 'primary' data are: qualitative interviews, focus groups, public meetings and the like.

Systems based on 'secondary' data sources tend to be directed at meeting 'comparative' needs (i.e. the needs of a group relative to those of another group with similar characteristics) and 'normative' needs (i.e. those defined in relation to an

agreed standard determined by professional experts). By contrast, those based on 'primary' sources tend to try and reflect the 'felt' or 'expressed' needs of the communities, that is, those needs identified by the communities themselves, either expressed directly or only found through closer inspection. An ideal measure of 'real' need would probably incorporate elements of both systems.

Because of overall financial constraints most needs are calculated in terms of an area's relative position rather than on normative grounds i.e. what absolute level of service should be provided, although on occasion minimum levels of provision, or floors, are stipulated.

Any resource allocation options will be based on a mixture of **knowledge** – from data, **evidence** – from analysis of this data and literature reviews, **assumptions** – over the representativeness of data samples, and overlaying all of these elements, **judgement**.

As well as allocating main funding blocks using such systems, the UK has typically also had in place some form of regional policy whose specific aim has been to close the performance gap between better off and worse off areas. It has often been the case that the allocation of discretionary funds has been used to try and achieve this goal.

In the past, UK regional policy has generally resulted in attempts to equalise the standards that apply in each UK region (the same has applied to intra-UK constituent country regional policies) e.g. in terms of general standard of living (GDP per head), unemployment etc. The purpose has been to help equalise the performance

of the best off and worst off areas of the UK, usually measured at Local Authority (LA) or Travel to Work Area (TTWA) level. This has been achieved by attracting domestic and foreign investment to under performing areas, (often through the use of grants e.g. to businesses creating jobs, only available in the relatively worst off areas) and so away from rapidly expanding and congested areas.

More recently this express aim of regional policy has been toned down. For example, housing allocations now take into account the high pressure for homes in the faster growing South East of England and of affordability issues in relation to low paid workers. In addition, the latest paper outlining the Government's approach to regional policy includes the slogan "Regional Policy For The Many, Not The Few" and highlights that regional policy is not just about the poorest areas but about all areas overcoming the barriers that prevent them from realising their full potential.

The remainder of this section concentrates on looking at some of these needs allocation systems in more detail. In particular, two such systems are investigated, that emerging from the Report of the National Review of Resource Allocation for the NHS in Scotland, chaired by Professor Sir John Arbuthnott ("Fair Shares for All") and the new formula grant distribution system of 2003 for the Local Government Finance Settlement in England. In addition, there is a less in depth look at: the Barnett Formula, used to make block allocations between the four constituent countries of the UK; and the original Needs Assessment study undertaken in 1977 prior to the original vote on devolution in 1979.

**"Fair Shares for All" – the Arbuthnott Report on NHS allocations in Scotland**

The Arbuthnott Report was a fundamental review of the arrangements for distributing resources to Health Boards, published in 1999. Its remit covered around 80% of the total net expenditure on Health in Scotland, including most hospital expenditure and the GP prescribing budget.

The Review was undertaken in order to examine ways in which methods for allocating the resources available could be made more objective and needs-based in the future. Determining the overall size of those resources was outwith the remit of the Review. The Steering Group, chaired by Sir John Arbuthnott, agreed a set of eight fundamental criteria by which it would assess all proposals put to it. These were:

- Equity – the primary consideration should be to achieve the greatest possible accuracy in capturing the cost implications of variations in need across the country, in order to develop a formula that delivers the greatest possible equity of access to health services.
- Practicality – use should be made of good-quality, routinely-collected data, in order to produce an administratively feasible formula which can readily be updated.
- Transparency – the rationale informing the formula's methodology should be explicable and any judgements should be made explicit, although this should not lead to oversimplification of details that might add precision to the methods.

- Objectivity – the formula should, as far as possible, be evidence-based, using as necessary the full range of available robust data, although it should guard against perverse incentives and any consequences which might threaten the integrity of the data.
- Relevance – the formula should avoid the dangers of extrapolation and make explicit where hard information is being used about one aspect of a service to make some assumption about an area where information is less good or absent.
- Stability – there should be a reasonable degree of year-to-year stability in locations in order not to cause too much turbulence among Health Boards.
- Responsiveness – this is the obverse of the stability criterion.
- Evaluability – the formula should be capable of being tested against the objective of increasing equity of opportunity of access.

Based on these criteria, the Review was about mapping available resources to the pattern of health needs in Scotland, rather than looking at different ways of delivering healthcare. The resulting formula strove to ensure equal opportunity of access to health care for people in equal need, where this equates to an equality of opportunity rather than an equality of outcome.

Following on from the earlier allocation methodology from 1977, based on recommendations made in 'Scottish Health Authorities Revenue Equalisation' (SHARE),

the Arbuthnott Report decided to retain the four broad measures used to determine the level of resources that each Board should receive:

- A measure of the population served by each Board;
- A measure of the composition of each Board's population in terms of age and sex (i.e. adjusting for differences in use of services based on the age/sex profile of an area, so that a Board area with a greater proportion of women of child bearing age will have a greater amount of health need than others);
- A measure of the relative health needs over and above the size, age and sex of the population existing within each Board (mainly due to differences in the morbidity of Board populations);
- A measure of any unavoidable excess costs of delivering healthcare in sparsely populated areas.

In practice it was found that the principal adjustments to the basic population share measure related to:

1. The age and sex structure; the main issue here being the proportion of elderly people in an area
2. Morbidity and life circumstances; differences in ill health were closely related to deprivation
3. Remoteness; costs of providing services rise in remote and rural areas.

It is the combined effect of these, sometimes contradictory, factors that determined whether an area requires a share of resources that is higher or lower than its share of the national population.

In the updated Arbuthnott version, improved data availability and analysis techniques led the review to conclude that a more sophisticated approach than before was possible and should be carried out. In particular, greater detail was considered in relation to deprivation and costs. So that while the four broad measures shown above were used to find a resource allocation formula, there were a number of specific adjustments made for each of the eight health programmes (acute hospital services, mental illness services, care of the elderly, maternity services, learning disabilities special services, community health services, GP prescribing, general medical services) being considered.

### ***Morbidity and Life Circumstances (Deprivation)***

- Each of the eight health programmes is influenced by a wide range of indicators of morbidity, mortality and socio-economic circumstances. For example the standardised mortality ratio among people aged under 65 is a widely used indicator of relative morbidity between populations and the proportion of the population claiming income support is a common indicator of levels of deprivation. The exact variables used for each health service were determined by econometric models. Appendix A illustrates the range of variables that were finally included for acute hospital services, the largest health programmes, accounting for over a third of the total NHS budget.

### Excess Costs

- Two factors were addressed here, excess costs generated by market forces factors and those resulting from delivering services to rural and remote areas. It was concluded that there was no evidence to support the former in relation to staff costs. On the latter a distinction was made between rurality and remoteness, where the latter is distinguished by extreme isolation requiring that an area maintain a level of service which by necessity costs significantly more in cost efficiency terms than in more accessible parts of the country e.g. islands.
- Statistical analysis found that two indicators were important in explaining such differences; the proportion of the population living in urban locations with more than 1000 people; and island status, even after taking into account the above. The adjustment for island status was almost 30%. Separate models were created for 4 of the health programmes to reflect the different impacts of remoteness on costs.

On reflection, while the general model for allocation is fairly simple in conception, adjusting population shares for age and sex distribution, for morbidity and life circumstances and for remoteness, resulted in the final models that emerged being quite complex.

The overall implications of this approach did not lead to radically different allocations, but this should not hide the fact that these allocations are based on a more robust methodology which should

reflect, and continue to reflect, the originally defined need.

### English Local Government Finance Settlement

In 2003 the Office of the Deputy Prime Minister (ODPM) introduced an updated system for the distribution of Formula Grant, covering revenue support grant, redistributed business rates and police grant. These grants total some £44bn. In addition, ring-fenced and specific formula grants, totalling £7.6bn, are allocated using alternative formulae or other rules on entitlement or on the basis of appraising bids.

Formula Grant is allocated among authorities by formula – Formula Spending Shares (FSS), the changes restricted by ‘floors and ceilings’. Separate formulae have been developed covering the seven major service areas and service sub-blocks (education, composed of 8 sub-blocks; personal social services, composed of 3 sub-blocks; police; fire; highway maintenance; environmental, protective and cultural services, composed of 7 sub-blocks and capital financing, composed of 3 sub-blocks). These divisions are made to allow for the very different factors influencing each service area.

The Government do not use FSS as a measure of how much should be spent in each area, but rather as a way of allocating overall grant according to authorities’ relative circumstances.

The logic of using these formulae is that, ultimately, every area in the country should be able to provide an equivalent standard of service for its population.

For each of the formulae the following structure applies:

- a Basic Amount for each client that is the same for each authority;
- a Deprivation Top-Up, that allows for the additional costs of providing services in deprived areas (except for highways maintenance);
- an Area Cost Top-Up, that recognises that wages and business rates vary across the country; and
- Other Top-Ups that address a range of cost pressures including rural sparsity, density and visitors and commuters.

The relative size of these top-ups varies between services.

Appendix B illustrates the degree of complexity that can arise from the fairly basic approach that is outlined above. It highlights the large number of variables that were ultimately used in arriving at the formula used to allocate funds within the police block.

As with Arbutnott, therefore, the final models used are quite complicated affairs with multiple adjustments and weightings of seemingly pertinent variables. In addition, the new methodology again failed to result in significantly different allocations.

### **The Barnett Formula**

The Barnett Formula is a funding allocation mechanism that distributes increases in public spending between the four UK constituent countries. It has been in place since the late 1970s. Basically, it takes the

announced increases in public expenditure in most public services and allocates them between the four constituent countries based purely and simply on current relative population levels.

It is important to note that the Formula only applies to increases in spending and not to the base spending figure for such services. It is also important to emphasise that no account is made of any 'needs' factor, other than for population. Any such 'needs' factor is only taken into account to the extent that it was already built into the system before it was initiated at the end of the 1970s. The Barnett Formula applies only to those public services which are devolved to Scotland, Northern Ireland and Wales. Therefore spending in areas like Social Security, which is not devolved, is unaffected by the Formula.

The Barnett Formula is seen as providing some measure of convergence in relative public spending levels per head of population. This is inevitable, barring extreme population fluctuations, given its simple structure based entirely on relative population levels. However, this is really a by-product of the system rather than an explicit goal as no assessment of need or the rate of convergence implied has been made. In reality it is a political 'fix' and in spite of having no target for allocation, or possibly precisely because of this obfuscation, the formula and its allocative outcome has remained generally acceptable in the world of electoral politics for over twenty years.

### **UK Needs Assessment**

While public sector resource allocation throughout the UK is undertaken without reference to a relative needs assessment, such assessments have been periodically

undertaken. In the lead up to the Devolution referendum in 1979 such a study was undertaken. This analysis was only partial in its coverage and did not give definitive results, due to the difficulty in agreeing on the best measures of 'need'. However, it did highlight the relative 'needs' positions of the four constituent UK countries and how that compared to the relative funding that existed at the time. This was also available broken down into major spending sectors like transport, housing, education etc, with different variables and weightings used in each case to attempt to measure 'need'.

A similar, but wholly internal, exercise was undertaken in the mid 1990s, updating the original exercise. The results from this were never made public.

### **Wider Implications**

This section has illustrated some of the systems used outside the housing sector that allocate public sector funds based on a relative needs system. It has been seen that while the general systems often have a simple structure, in practice the final formulae chosen are quite complicated and involve a wide range of variables and weightings.

The common structural elements are:

- a population driven basic allocation
- adjustments for geographical differences in costs
- adjustments for geographical differences in deprivation

Some such adjustments, like for remoteness, can enter into the formula through either the costs adjustment or the

deprivation adjustment, or indeed through both.

Also, different adjustments may work in different directions. So, for example, an inner city area may have its allocation adjusted down when relative remoteness is considered but adjusted back up if it suffers from relatively high unemployment. It is only after all these relative adjustments, appropriately weighted, have been made that it emerges whether an area is allocated more or less than its population based share alone would allow for.

Over time the data inputs and analysis techniques by which such formulae are determined have improved. However, there is still a significant amount of judgement involved in using these systems. For example, the weighting of variables contained within formulae is often a matter of subjective judgement rather than of objective analysis.

In addition, the definition of the very 'need' being met is ultimately a 'political' one. So too is the derivation of any formula to address it as once the 'need' has been defined there are usually various options for picking variables which appear best suited to proxying the achievement of equitable provision. Rarely, if ever, will there be unanimity over the 'need' being addressed and the best way of measuring it and so judgement, usually political judgement, is a vital and necessary part of the process.

Sometimes, as is the case with the Barnett Formula for UK national distribution, no need is ever defined and the formula runs on the basis that it is simply currently politically acceptable.

It is important, therefore, to recognise that, ultimately, such allocative systems, and the 'needs' they are meant to meet, are considerably influenced by political judgement and not simply by objective research. However, once such judgements have been made regarding 'need' and the specific purpose of the allocation system e.g. to equalise the standard or availability of certain public services, then such objective research can be effectively used to come up with an efficient allocative system.

Starting with well-defined aims and objectives, which can be proxied using robust relative data, is key to ending up with an efficient and well-targeted solution. This is particularly pertinent at present when the emphasis of regional policy and public spending in general is moving away from interventionist equalisation of public services and towards more locally demand driven provision of services. This applies both at the regional level e.g. with housing in the South East of England, and at the more local level, e.g. with more geographic diversity over education and health choice.

### 3 Sub-National Allocations of Social Housing Grant in Scotland and England

#### Introduction

In this section we describe and then critically assess the ways in which SHG is allocated at a sub-national level in England and in Scotland. To do this, the researchers have examined the existing literature, including 'grey material' and interviewed (by telephone and in person) key informants. The section starts by outlining the current methods of resource allocation before critically appraising them and drawing wider implications for the current debate in Wales.

For both countries' capital allocations for the annual Approved Development Programme (ADP) sub-national allocation, the principles underlying the broad elements of the index-based mechanism are similar (Gibb, et al, 1999) and consist of five elements.

1. A set of needs measures is identified.
2. A nationally comparable measure is defined (e.g. based on Census results).
3. Each sub-national region/district calculates its own needs score on the different dimensions of need.
4. Total expenditure is then divided and, if some of the funding is top-sliced (for example, for homelessness), may be distributed according to scores on relevant indicators.
5. Alternatively, each dimension can be given a weight and each area awarded a total score, with resources allocated according to total scores.

Although both systems adopt resource allocation formula-based indices, both are undergoing major change and there is evidence of both convergence and divergence.

#### England

Although the components and weights of the Housing Needs Index (HNI) have been constantly under review (which further obscures transparency), the post-2000 allocations have steadily moved towards a new approach to allocating SHG funds sub-nationally. HNI allocated funds roughly speaking on the basis of past and current 'needs', but the growing emphasis on the North (surplus) and South (shortage) regional housing divide in England has made such a system more difficult to sustain. Accordingly, the new system relies less on nationally defined variation in need and more on within regional and local differences.

Under the new system, HNI will continue to be used to allocate funds between the regions but may be shaped to concur with strategic investment priorities arising from, for example, the Communities Plan in the South East and low demand considerations in the North and West Midlands (Garnett, 2000; King, 2001). The Regional Boards will come to play a larger role, as will their constituent partners. Increasingly, sub-regional planning (but larger than administrative council boundaries) will play a bigger role in allocating funds and justifying programmes. By 2004, each local authority will receive at least 80% of its HNI with the remaining funds being allocated according to perceived local strategic investment priorities. In the light

of the present project, a key question will be to ask how this approach was arrived at and how successful the sub-national mechanism actually is in distributing SHG?

### **Evolution of the English System**

Arising from the decision in the late 1990s to move to a single capital pot for local authorities, results from the 1996 English House Condition Survey and changes to the ADP, the consultation process also proposed some alterations to the SHG resource allocation index, the HNI.

The allocation of ADP was in two parts – formulaic (the HNI) and discretionary (to allow policy priorities to have a role e.g. through top-slicing but also to reflect the performance of local housing strategies). HNI is an index of relative need to the regions. The allocations i.e. SHG were to be used for ‘new development or rehabilitation of poor condition private sector housing’.

The then Government Department (DETR) argued that the data complexity and measurement problems made it impossible to comprehensively measure housing need – however the indices only required to measure differences in relative rather than absolute need, allowing the use of proxy measures or indicators as an alternative to precise measures of actual need. Nonetheless, direct measures, in general, would be preferred if available.

The HNI was reviewed in 1995. HNI consisted of two indices: new provision (75%) and private sector stock condition (25%). However, using the index of multiple deprivation (pre 2000 this was the Index of Local Conditions (ILC)), 15% of General Needs Index (GNI) resources were redistributed according to relative

deprivation scores (i.e. to those with a positive (deprived) ILC index score). This implies that non-housing deprivation did make a contribution to the HNI allocation (although there is circularity here as there is a housing component in the ILC).

New Provision is a relative measure of the underlying demand for additional social housing in each housing authority area which is not currently being met, set against a measure of the existing unused or under used social housing in each area. The New Provision Index (NPI) is calculated by combining a number of demand measures less an allowance for supply covering excess management vacancies (i.e. immediately available for letting, or after minor repair, in excess of the median level for all authorities, after taking account of variations in turnover) and under occupation.

### **Demand measures:**

- Overcrowding 40%
- Involuntary sharers and concealed families 25%
- Worst private sector unfits 10%
- Elderly in need of specialist accommodation 5%
- Disabled in need of specialised accommodation 5%
- Households receiving support for housing costs 10%
- Replacement of local authority stock 5%.

**Supply measures:**

- Local authority and housing association vacant dwellings
- Under-occupation.

The Private Sector Stock Condition Indicator (PSSCI) consisted of three separate components covering:

- Occupied private sector unfits 79.7%
- Households eligible for disabled facilities grants 19.9%
- Certain defective dwellings in the private sector 0.4%

The HNI indicator was designed to reflect the need for RSLs to acquire and rehabilitate private sector dwellings. It covers unfit housing, including those that are vacant but excluding those where owners can afford to make the dwelling fit. Appendix B and E of the 2003 ODPM consultation paper (ODPM, 2003) detail the operational definition of each indicator for the new provision index. According to the consultation paper, the pre-consultation regional mix of the NPI was as follows:

- North East 3.8%
- Yorkshire and the Humber 9.0%
- East Midlands 6.1%
- East of England 7.8%
- London 27.8%
- South East 12.8%
- South West 8.5%

- West Midlands 8.5%
- North West (excl. Merseyside) 11.5%
- Merseyside (HC def) 4.2%
- England 100.0%

In a recent consultation document (Housing Corporation, 2003), the proposed changes for 2004-5 to 2005-6 are set out. Following the introduction of combined funds for housing (both RSL and council) known as Regional Housing Pots, Regional Housing Boards will recommend to ODPM the levels of funding that should be allocated to councils and to RSLs (to the latter through the Housing Corporation). The Minister then considers regional board submissions before determining the final level of support. Funding has to fit with published regional strategic priorities and hit a number of targets and requirements (e.g. sustainable development criteria). The funding is for a two-year programme and there is a strong emphasis on the bottom up or localised input and its consequent deliverability. In fact, most of the policy literature is concerned with piloting new partnership arrangements by RSLs to make the most use of SHG and to deliver outputs and meet targets. This is a long way removed from the historical reliance on indices but emphasises instead both regional differentiation and whether or not acceptable housing development quality can be achieved within an acceptable time frame. Table 3.1 shows the regional allocation for the two years 2004-5 and 2005-6.

One can conclude that the sub-national allocation mechanism had the following features:

1. The approach was in part formula-driven but also partly depended on performance of local housing strategies and analysis increasingly carried out at sub-regional level.
2. The approach included a non-housing deprivation measure.
3. The methodology focused on relative measures of need and Government used this as justification for incompletely measured proxies of need.
4. The approach explicitly combined new provision with private stock condition to reflect the scope and balance of uses of ADP and SHG.
5. The methodology led to spatially distinct outcomes for new provision, in terms of resource share, directed towards London and the south East.

**Table 3.1 English Capital Funding for RSLs from the Regional Housing Pots, cash £m**

<i>Investment Region</i>	<i>2004-05</i>	<i>2005-06</i>
London	750	803
South East	270	277
South West	93	96
East of England	121	124
East Midlands	66	68
West Midlands	89	91
North West	111	114
Yorkshire & Humber	65	63
North East	38	38
<b>England</b>	<b>1,632</b>	<b>1,673</b>

Source: Housing Corporation, 2003, p4

## Scotland

The system of resource allocation used by Scottish Homes and its successor, Communities Scotland, i.e. social inclusion indicators combined into an index, plus a small role for performance, was also contentious. For instance, the Welsh consultation review included considerable criticism of people-based indicators. This problem also occurred with the Scottish approach, one centrally focused around social inclusion concepts – because housing practitioners disagreed over the relative merits of housing need (excess demand) versus regeneration (low demand) factors. It is also worth pointing out that Communities Scotland is presently undertaking a strategic review of its investment policy (to be called the Strategic Investment Framework that will bring together resource allocation, local housing strategies, bidding and multi-year programme delivery within one coherent system linking Scottish ministers, Communities Scotland and the local authority sector – see Appendix C). This is likely to change the methodology and philosophy of sub-national resource allocation. In part the process of reform is being driven by the emphasis on local housing strategies, statutory council-level housing needs assessments (as laid down in the 2001 Housing (Scotland) Act) and the evolving development funding role being assumed by councils and away from Communities Scotland area teams. In this environment, top-down needs-based indices are less likely to be credible. Below,

we consider both the existing system and proposals for the future in more detail.

### Resource Allocation

In 2002-2003, Communities Scotland distributed £226 million on housing projects (ADP for general and particular needs housing for rent totalled £181 million). The introduction of council-led Local Housing Strategies has opened up the possibility of local authorities taking over development funding in Scotland (as Glasgow did in August 2003). This development reinforces the importance of acceptable means of distributing funds at sub-national level to the seven area team offices of Communities Scotland. Resources are allocated according to two elements: regional scores on a series of social inclusion indicators explain most of the allocation and a relatively smaller proportion is separately determined by regional office management performance (this latter element has not been used for some time).

The Communities Scotland Investment Programme for 2003-4 indicates that the uses of grant are carefully circumscribed – thus Housing Association Grant is a ‘flexible funding mechanism that enables housing associations to provide, with the minimum public subsidy necessary, housing for rent and, to a lesser extent, owner-occupation’ (p.10). Table 3.2 shows the area team distribution for 2003-2004.

**Table 3.2 Approved Communities Scotland Area Team Programme, 2003-2004**

**£m**

<b>Area Team</b>	<b>Approved Programme 2003-2004</b>
Inverness	16.355
Aberdeen	15.570
Dundee	17.952
Edinburgh	45.328
Hamilton & Ayr	32.793
Paisley	34.908
Glasgow	60.000
LSVTs, BTS and BMEs	13.802
<b>Scotland</b>	<b>236.708</b>

Source: Communities Scotland (2003), p. 14.

The resource allocation system used by Communities Scotland was introduced in 1999-2000 in order to distribute the development Programme to Scottish Homes regions. Relying on core indicators of social exclusion (developed with the assistance of one of the authors of this report), the objectives of the system were to:

- Provide a rationale and method for resource distribution to a sub national level while enabling Regional (or Area) teams to have discretion over allocation to specific projects within an overall strategic framework consistent with ministerial investment priorities.
- Ensure the alignment of investment programmes with relevant plans.

- Enable the Minister to exercise guidance over the formulation of the investment programme.

The rationale behind the indicators started from the principle or primacy of reducing/eliminating social exclusion. Resource allocation is therefore founded upon measuring the level and intensity of social exclusion throughout Scotland. The indicators used are then estimated and weighted for consideration and decision by Ministers. The core distribution derived from the indicators gives each Area team a range of resource assumptions. They can then determine how their allocation of resources will be spent by developing programmes consistent with plans and the Approved Development Programme. The area teams' plans then add up to a national programme that is considered for approval by the Minister. Internal Communities Scotland briefing documentation summarises the approach well:

‘The purpose of the Social Exclusion Indicators, which produce resource planning assumptions for each of Communities Scotland’s area teams, is to identify the ‘what’ i.e. the size and shape of the social exclusion problem, whereas the Programme Expenditure is the ‘how’ i.e. the means by which Communities Scotland tackles the problem according to local circumstances’ (Communities Scotland Resource Allocation System - Briefing, 2003, p.2).

The main indicators used were developed to quantify the incidence of housing stress experienced by individual households that could put them at risk of social exclusion and the volume of households living in potentially/actually excluded neighbourhoods or communities in urban and rural areas. Moreover, the indicators selected solely relate to households with insufficient incomes to meet their housing requirements in the private housing market. The indicators used are:

People-based:

- Households in housing of poor physical quality
- Long term sick and disabled households requesting adaptations
- Homeless households.

Area-based:

- Households in disadvantaged urban communities
- Households in accessible and inaccessible rural communities

- Households in other urban communities and market towns.

### **A Strategic Investment Framework**

As in England, evolving ministerial housing policy priorities require changes to the basis of resource allocation. The advent of policy priorities relating to funding the Scottish Housing Quality Standard, the development of Local Housing Strategies (including the transfer of development funding from area teams to local authorities), mechanisms to deliver more affordable housing supply and the wider implications of Scottish housing legislation combine to require a new partnership approach between the Executive, Communities Scotland, RSLs and the local authorities. The final shape of the new Strategic Investment Framework (SIF) is not yet agreed (it has to be put in place for 2005-2006 allocations subject to Ministerial approval) but at least two of its key dimensions are clear in outline.

First, the intention to construct an overall framework linking resource allocations to ministerial priorities, and on to local housing strategies and bidding and from there to multi-year investment programming can be discerned. Appendix C is reprinted from a Communities Scotland briefing on the SIF and usefully sets out how these elements fit together in terms of their logical sequencing and the relationships between the key parties. The model is in four stages:

1. An indicator dataset is estimated for each local authority and the results are then weighted to reflect ministerial priorities (for example, there may be disproportionate stress on fuel poverty eradication relative to the unweighted score). As a result of

this process, resource assumptions (what they can expect to receive) can then be passed down the line to local authorities.

2. In a parallel process, local authorities develop local housing strategies, for instance, constructing internal housing needs analysis and local housing systems analysis – to a common, consistent methodology. These analytical processes produce estimates of local authority resource requirements.
3. Local authorities submit formal bids for resources and these are assessed by Communities Scotland in terms of both the local housing strategy documents and their consequent resource requirements. In the light of this analysis, Communities Scotland recommends a three-year investment strategy for the council and puts it to the Minister for consideration.
4. Ministers approve a three-year investment plan and Communities Scotland in turn agree a programme and annual allocations with the local authority. The council at this point should be developing its forward plans, its annual programme and working with local RSLs who submit development bids consistent with the local housing strategy's requirements.

Second, the indicators used in the SIF by Communities Scotland will be clearly linked to measures associated with the achievement of their core objectives. The three objectives are as follows (with likely outcome measures in brackets – from which indicators will be estimated):

- Delivering good quality, sustainable and affordable housing for everyone (i.e. increasing affordable supply; improving physical housing quality)
- Regenerating our communities (i.e. reducing the extent of multiple deprivation in local authorities)
- Tackling poverty and helping vulnerable people (i.e. reducing homelessness, fuel poverty and enabling disabled household members to participate in communities).

Table 3.3 sets out the seven indicators presently being consulted on as ways of capturing these objectives as a means to develop resourcing assumptions within the proposed SIF. The indicators combine standard housing measures e.g. homelessness, repairs and shortage based concepts of housing need with rural and urban measures of deprivation along with specialist measures of housing need such as shortfalls in barrier-free provision and energy-efficient homes.

**Table 3.3 Proposed Indicators for the SIF at Consultation/Further Consideration**

<i>Indicators/Objectives</i>	<i>Delivering good quality, sustainable &amp; affordable housing for everyone</i>	<i>Regenerating our communities</i>	<i>Tackling poverty &amp; helping vulnerable peoples</i>
Indicator 1	Excess demand (Bramley estimate)	Most deprived data zones (index of deprivation)	Households assessed as homeless
Indicator 2	Comprehensive repairs (SHCS)	Benefit dependency in rural areas	Households in poor energy rated dwellings
Indicator 3			Households with a disability not in barrier-free homes

**Wider Implications from Scotland**

In contrast to the situations in Wales and England, the Scottish model is anticipated to only require seven indicators primarily though not wholly based on housing-based needs (i.e. it will clearly include some form of deprivation index indicator). Also, unlike the situations elsewhere, there is as yet no obvious external transparency as to how weighting assumptions are made and what they mean in practice.

The SIF approach is currently (February 2004) undergoing informal consultation and revision in a working group involving Convention of Scottish Local Authorities (COSLA) and Scottish Federation of Housing Associations (SFHA) with a formal consultation likely to follow if Ministers approve from April 2004. Further developments in Scotland have a clear resonance with Wales and should be monitored closely. In particular, it sets out a framework for using an indicators dataset alongside local housing strategies in order to develop multi-year funding and annual allocations linked to RSL development plans. At the same time, we have seen that

an as yet unspecified set of indicators would be relatively parsimonious and likely to involve both housing need and area dimensions of deprivation. While performance is not an explicit element, the quality of the strategy documents is clearly vital to ultimate allocations.

**Wider Implications from England and Scotland**

England and Scotland sub-national allocations have not necessarily been constrained by local authority boundaries but have been able to operate at regional and housing market area levels. Thus, in England, allocations have a strong regional emphasis; in Scotland, the allocations are to local authorities but the funding is in part shaped by local housing strategies that rely on housing system analysis that should operate more widely than simply council boundaries.

There has been a relatively strong deliverability and performance ethos, even if the latter has fallen into disuse in Scotland. The new SIF in Scotland is likely to favour partnership working between

councils and RSLs in order to deliver multi-year programmes of investment.

Contemporary developments in both countries suggest an increasing emphasis on acting strategically and at a scale to meet local priorities.

Bottom-up (local or regional) strategic considerations are being given more weight than top-down measures of housing need based on what is measurable, as opposed to more comprehensive measures of housing need.

There has been a shift in both countries, to differing degrees, away from wholly needs-based indices.

## 4 Review of the Consultation Exercise on the Allocation of Social Housing Grant in Wales

### Introduction

This research originated in the inconclusive outcome of a consultation exercise held by the Welsh Assembly Government regarding the development of a new approach to devise resource allocation criteria with which to distribute funds to local authorities for SHG purposes. In this section we outline the process and outcomes of that consultation exercise, analyse the options it produced and the consultative responses to the proposals. The objective of the section is to highlight the wider implications or lessons of the consultation exercise for the present research.

### The Consultation Exercise

Resulting from growing dissatisfaction with the current method of allocating SHG funds (see section 1 above), the Welsh Assembly Government in 2002 established a working group with the Welsh Local Government Association (WLGA) and the Welsh Federation of Housing Associations (WFHA) charged with developing a formula-based allocation which would better reflect the need for social housing investment through SHG. In October 2002, local authorities and other interested parties were invited to comment on an agreed working group consultation paper that proposed variants around two options:

- A socio-economic formula-based allocation using dwelling-based and person-based variables, with a choice of different weightings of person or people-based emphases.
- An allocation based on local authority population totals (i.e. a common

amount per capita) derived from the 2001 Census.

No consensus was achieved with these options and the existing allocation was retained for a further year, prompting the current research and an expectation from the Welsh Assembly Government that local authorities should expect revised proposals on a new method to allocate resources in due course.

### The Formulae proposed in the Consultation Exercise

The alternative option to a housing need/people-based need formula was a population-based allocation, as is often used to distribute resources in the public sector. Here the primary focus is on the needs based approach. The Working Group identified factors that they felt offered a reasonable basis for determining the allocation of SHG:

- Housing need: i.e. specific needs for extra RSL housing.
- People's needs: i.e. the relative size of prospective client groups for social housing, as measured by indicators of disadvantage e.g. low income non-employment and specialist care as a result of meeting a certain category such as elderly care needs.

The two forms of need are not wholly independent – a problem that bedevils this kind of analysis or classification.

The Group also debated (a) whether the overall allocation should be weighted to housing or people's needs; and (b) whether

and how the index should reflect the differing cost of RSL provision across Wales. The relative costs of providing new RSL housing was found to vary (with Wales = 100) from 91.5 in Pembrokeshire to 114.7 in Cardiff. Three councils faced costs more than 10% above the national average and eight councils faced costs more than 5% below the Welsh average. The indicators used operated at local authority level only (the target spatial scale for SHG allocation) though this may raise issues of implementation and whether more functional spatial levels should be adopted such as the travel to work area or housing market area associated with identified needs.

The indicators chosen for the index did not include three normally significant variables. First, **homelessness**, the most extreme form of need was discarded, either as a general measure of levels of homelessness or the numbers in priority need being helped by the local authority. Second, **vacancy levels in social housing** were rejected on the basis that SHG requirements would not be influenced by high levels of local authority vacancies (although this might be indicative of problems that require an RSL intervention). Third, the actual **capability of the LA and the RSL to deliver** or implement successful projects was not considered relevant to a needs-based allocation mechanism. The indicators that were used were as follows:

### **Housing Need Indicators**

1. **Waiting lists for social housing.** An (imperfect) indicator of unmet need for social housing, covering households on waiting lists living currently in the private sector.

2. **Concealed households.** These are people who want to move away from their current household and set up separate household units. This will to an extent overlap with the waiting list indicator.
3. **Net growth/decline in households.** Part of any net growth will need to be accommodated through extra housing in the social sector. Although this component cannot be measured directly, it can be arguably proxied for by both the current balance between social and private housing in an area; and the degree of affordability of private, owner-occupied housing in that area.
4. **Rural housing needs.** Many of the specific rural policy objectives cannot be readily measured (e.g. the preservation of the Welsh language) so, instead, the housing domain of the Welsh index of multiple deprivation, focusing on greater rural disrepair and worse levels of energy efficiency, has been used.

### **People-based needs Indicators**

1. **Income.** The number of people who are claiming social security benefits (from the 2000 Welsh Index of Multiple Deprivation).
2. **Employment.** The number of individuals without employment (from the 2000 Welsh Index of Multiple Deprivation).
3. **Working households on low income.** Households seeking council tax benefit and not receiving income support or job seekers' allowance. Note that there is overlap here with

the first indicator on social security benefits.

4. **Older people in need of care.**

Councils are expected to invest more in extra care housing as an alternative to residential care. This is reflected in using the Elderly Persons Social Services Standard Spending Assessment as a proxy for this type of need.

For both indices, each sub-variable was equally weighted within the respective index (i.e. 25% each regardless of any

other possible measure of impact on need – for instance, concealed households on the housing index or elderly households in need of care on the people index – might make a smaller or larger contribution and this may vary significantly over time). The index as a whole was calibrated in terms of the different weightings between housing and people-based needs, going from a 50:50 split to 75:25 in favour of housing and 75:25 in favour of people-based needs. Any proposed alteration would employ a two-year dampening mechanism to reduce the one-off impacts of altering the resource allocation.

**Table 4.1 Indicators used for the Consultation Mixed Formula**

<b>Series</b>	<b>Date</b>	<b>Unit</b>	<b>Data Source</b>	<b>Weight</b>
<b>Housing needs indicators</b>				
Waiting lists	1997	Households	WHCS 1998	25%
Concealed households	1997	Extra homes required	WHCS 1998	25%
Changes in households	mid-1997 to mid-2000	Households	Household estimates	25%
Rural housing needs	2000 ILD	Households	ILD 2000	25%
<b>People-based needs indicators</b>				
Income deprivation	2000 ILD	People	ILD	25%
Employment deprivation	2000 ILD	People	ILD	25%
Working households on low incomes	1999?	Households	DWP data	25%
Elderly households in need of care	2002-3	People	SSA allocation 2002-3	25%

Source: consultation working group paper table 1.

Note: WHCS -Welsh House Condition Survey; ILD – index of local conditions (the Welsh index of multiple deprivation); SSA – Standard Spending Assessment.

Table 4.1 is derived from the original information contained in the consultation paper sent to councils. Columns 2-5 illustrate some of the difficulties facing any index builder using different concepts and sources of information with which to build a valid index.

- **Date.** The indicators are spread over time in terms of when data was captured. This is not a problem if the phenomena they measure are stable but clearly were it to be volatile, cyclical or otherwise prone to trending, it would not make sense to rely on the pooling of indicators that do not move together. Of course, one may simply view that some of the data is too old to be used.
- **Unit of observation.** The indicators chosen are a mix of individuals, households, and extra homes required to achieve household/homes balance. One needs to be confident that there are no problems of interpretation associated with using different scales in this way.
- **Independence.** Are all of the variables wholly independent of each other?
- **Data source.** The reliability of individual data sources, their transparency and again issues of combination of indicators may arise. Well-designed sample surveys and the widely held to be credible index of multiple deprivation can be contrasted with inter-censal household estimates and the use of SSA data.
- **Indicator weight.** Each indicator is equally weighted but this is just one

of several options: statistical modelling to apply weights or the use of expert advice to impose weights are two possible approaches that could seek justification.

A number of points can be made about the results under the different allocative mechanisms described by Table 4.2.

- Blaenau Gwent is the outlier with massive positive changes associated with formula changes but more than 50% of councils would experience large changes in excess of plus or minus 25 per cent. With 12 out of 22 so affected it is not surprising, pragmatically, that it was difficult to achieve consensus, even allowing for the negative impacts of the formulae on the larger urban councils.
- Moving away from the present historically derived distribution will have large redistributive impacts in both directions.
- Several councils are big losers under any of the proposed changes: Newport, Cardiff, Bridgend, Swansea, Pembrokeshire, Denbighshire and, to a lesser extent, Gwynedd and Ceredigion.
- The main winners across the board are: Blaenau Gwent, Wrexham, Rhondda Cynon Taff, the Vale of Glamorgan, Carmarthenshire, Powys, Conwy and Torfaen.
- The index weighted towards housing need produces less negative impacts than the other alternatives to the status quo (though still a reduction) for Cardiff, Denbighshire and

Pembrokeshire but is relatively more negative for Bridgend, Swansea and Newport.

### **Views of Consultees**

The Welsh Assembly Government passed on to the research team the annotated consultation responses applying to the 75:25 weighting in favour of housing need. This is our primary focus as it appears that the comments made by councils and RSLs were fairly standard across the options and this version, stressing housing need, received the closest scrutiny as a possible option. In order to clarify the discussion on housing need, Appendix D reprints Box 2.1

on *Housing needs and demand: clarifying the concepts*, from the Welsh Assembly's Housing Market Guidance (Gibb and More, 2002).

### **Local Authority Comments**

Altogether, the working group received feedback from nine councils with Swansea, Cardiff and Newport providing detailed and extensive responses. Unsurprisingly, in these types of exercises, those who tended to make a comment one way or another tended to be at the extremes of the distribution in terms of benefits from the changes associated with the proposed allocation mechanism.

**Table 4.2 A Comparison of Current Allocation with Per Capita and Formula-based Allocations, by Unitary LA, with Adjustments for Different Relative Costs of Provision.**

LA	SHG Allocations 2002-03	Per Capita Allocation (£000)	Per Capita Allocation (%change)	Formula 50:50 (£000)	Formula 50:50 (%change)	Formula 75:25 housing (£000)	Formula 75:25 housing (%change)	Formula 75:25 people (£000)	Formula 75:25 people (%change)
Isle of Anglesey	1,100	1,111	1	1,000	-9	926	-16	1,073	-2
Gwynedd	2,200	1,973	-10	1,983	-10	1,965	-11	2,001	-9
Conwy	1,620	1,904	18	1,950	20	2,030	25	1,871	15
Denbighshire	2,400	1,606	-33	1,716	-29	1,795	-25	1,637	-32
Flintshire	2,220	2,490	12	2,254	2	2,379	7	2,128	-4
Wrexham	1,290	2,223	72	2,280	77	2,340	81	2,219	72
Powys	1,460	2,102	44	2,072	42	2,320	59	1,822	25
Ceredigion	1,260	1,234	-2	1,101	-13	1,185	-6	1,016	-19
Pembrokeshire	2,600	1,820	-30	1,945	-25	2,015	-23	1,876	-28
Cardiff	2,230	2,821	27	2,965	33	2,928	31	3,002	35
Swansea	5,550	3,920	-29	3,779	-32	3,584	-35	3,973	-28
Neath Port Talbot	2,130	2,239	5	2,223	4	1,942	-9	2,506	18
Bridgend	2,480	2,274	-8	2,123	-14	2,061	-17	2,186	-12
Vale of Glamorgan	1,760	2,395	36	2,480	41	2,851	62	2,107	20
Cardiff	7,740	6,172	-20	6,625	-14	7,068	-9	6,179	-20
Rhondda Cynon Taff	2,960	3,916	32	3,832	29	3,361	14	4,305	45
Merthyr Tydfil	940	927	-1	1,050	12	897	-5	1,205	28
Caerphilly	2,720	2,919	7	3,052	12	2,891	6	3,214	18
Blaenau Gwent	350	1,160	231	1,155	230	967	176	1,344	284
Torfaen	1,140	1,624	42	1,478	30	1,381	21	1,576	38
Monmouthshire	1,490	1,683	13	1,483	0	1,636	10	1,328	-11
Newport	3,360	2,487	-26	2,454	-27	2,479	-26	2,429	-28
<b>WALES</b>	<b>51,000</b>	<b>51,000</b>	<b>0</b>	<b>51,000</b>	<b>0</b>	<b>51,000</b>	<b>0</b>	<b>51,000</b>	<b>0</b>

The main positive points reflected a number of issues: One council, actually supporting the 50:50 mechanism, argued that ideally SHG distribution should be closely linked to a robust housing needs survey that would, one presumes, be produced consistently across Wales. However, at the same time, they saw a need for social housing investment to tackle deprivation rather than simply need, making the key distinction between low demand problems and affordability problems i.e. the SHG mechanism needs to cope with both sorts of problem. Three councils argued that the 75:25 allocation worked because it was primarily about housing need but included scope for tackling people-based problems.

There were four principal levels of criticism (not independent of each other), and these are examined in turn:

- Those who thought that any form of formula was inappropriate
- Those who also argued that the needs indicators adopted were unbalanced, incomplete or in part wrong
- Those who also took the view that the formula undermined important complementary developments such as business planning, local housing strategies and the further evolution of housing needs assessments and market analysis
- Those who felt that there were fundamental problems with the people-based indicators.

Some local authorities argued that a formula basis of any kind was too straight-jacketing because it failed to reflect adequately localised needs and concerns. It was argued that a formal system would prevent Welsh local authorities achieving the national vision for housing, i.e. that 'everyone in Wales would have the opportunity to live in quality, affordable housing; to be able to choose where to live and decide whether buying or renting is best for them'. Moreover, councils argued that the primacy of a formula index would downgrade the new statutory function of the Local Housing Strategy in providing measures of the scale and distribution of different forms of housing need.

There were several specific problems identified by council respondents with the housing needs indicators chosen for the formula.

- Some of the indicators rely on data that is five years old.
- Waiting lists possess a well-known set of problems of comprehensiveness and interpretation. The advent of choice-based allocations creates new data but arguably reduces the meaningfulness of other housing register information – at least the two forms of information have to be used sensitively.
- Household changes are volatile and questionable as an indicator for some respondents.
- The indicators do not identify supply and demand for affordable housing or take affordability more generally (i.e. discussion of local house prices and incomes) into account.

- Homelessness, the effects of the Right to Buy and vacancy levels within the social stock are not developed as indicators and should be. There was also a general criticism about the questionable equality between housing need and people-based deprivations.
- There were concerns that housing need and people based indicators were not entirely independent of each other and that that overall formulaic need might be therefore overstated in some cases.
- The use of rural needs indicators ignores the inherent variability of deliverability/implementation in different local land and construction markets. This belies the wider point about the scope of local authorities to deliver additional housing more generally. The rural indicator was also queried because of the existence of a significant top slice on capital spend for rural Homebuy programmes.

A further key concern is that reliance on a formula-driven index of housing need from the centre undermines locally-derived housing strategies, needs assessment and business planning by local authorities. This critique was linked by one council to the wider strategic vision for housing of the Welsh Assembly but also to the need to develop market analysis within more sophisticated needs assessments. Implicit in better needs assessment is the argument that unmet needs (including affordability problems) are met not just by SHG-funded development and rehabilitation but also by private sector new build for market level prices, by affordable housing quotas and other activist policies. One council noted

that SHG levels of build implied by recent financial settlements were less than their annual RTB outflow.

Council responses also raised questions about the scope and limits of the appropriate uses for SHG in general. One council argued that SHG is supposed to be used to enable properties to be brought into the social housing market either through rent or assisted home ownership but that the proposed formula was unable to sufficiently discriminate and disaggregate the different types of housing need, for instance, meeting the needs of vulnerable groups and accommodating diversity. A second council argued that the Assembly should clarify the purposes of SHG in terms of its usage and contribution to addressing identified housing need. They characterised it as bricks and mortar subsidy for development or rehabilitation in order to expand affordable housing to those in identified housing need. Thus a key conclusion from the local authorities was that any approach to resource allocation should be designed around housing need, demand and requirements (and with correspondingly less emphasis on people-based, deprivation, regeneration or inclusion dimensions).

### **RSL Comments**

Eleven RSLs provided feedback on the 75:25 formula. They made many of the same comments and criticisms as their local authority counterparts. Additional comments included:

- There is no performance incentive i.e. the same level of grant will be delivered regardless of performance by providers (and bad performance, by extension, might worsen indicators and increase funding!).

- One respondent did not see the logic in introducing social need (i.e. people-based indicators) into the formula unless housing investment was clearly linked to economic development with housing investment leading to specific employment and in-migration or population retention effects.
- The indicators were seen to be too demand-side oriented, that is, they did not account for supply availability (of the existing stock) and supply capacity (the potential for new development).
- The need indicators were considered by one respondent to be inconsistent with the Assembly's desire for councils to fully account for the private sector within their planning of social housing provision. The same respondent argued that the index overrode the widely-used Fordham approach to measuring affordability gaps.
- It was argued furthermore that the index removed the incentives for partnership working between councils and local RSLs.
- The proposed formula does not distinguish SHG by tenure as Low Cost Home Ownership requires lower percentage grant support. Furthermore, SHG level requirements depend on the quantification and types of need but also on local costs and average grant levels. The respondent argues that it takes little account of types/quantification of need and ignores the impact of average grant levels.

- One RSL argued that an impending crisis in extra care housing would soon hit Wales and made a case for additional top slicing, which by extension further weakens the formula basis of allocation.

### **Research Interviews**

As part of the research process, a series of interviews were held with officials from the Welsh Assembly Government, the WFHA, the WLGA and individual social landlords. The aim of these interviews was to provide a richer qualitative sense of the key issues. Topics under discussion included the respondents' views about the consultation exercise, the preferred basis for allocating funds, questions of performance, the specific indicators, the deliverability of programmes and the tensions between needs-based and regeneration-based funding.

Several of the respondents argued that too much time had been devoted to this exercise given the (relatively small) levels of funds at issue. Some argued that it was not clear that the relevant parties were particularly unhappy with the programme's allocative outcomes though others clearly felt that the status quo was no longer-term basis for allocation of funds. Much was also made of the political resistance to change amongst councils particularly if it was linked to regional functional allocations or to performance (unless the latter was linked to concepts such as sustainability).

A genuine tension exists over the scope of SHG and whether it should incorporate deprivation/regeneration or people-based indicators or whether it should rather rely on scarcity-based housing need indicators. In part, this relates to the overall levels of funds in that one landlord argued that

prioritisation means tackling excess demand first and recognising that regeneration uses of SHG requires supplementary non-housing defensive investments (indeed there should be investigation to ascertain levels of non-housing investment contained within proposals for such allocations). Moreover, it was felt that there should be a focus within allocations towards funding housing where people wanted to live and explicit account should be taken of affordability to help those on lower incomes through new supply.

While it was recognised that the Welsh Assembly Government builds in planning projections for two years in advance of the current financial year (for 2003-4, planning estimates at 80% and 70% for the following two years are provided), all of the subjects interviewed addressed the advantages of institutionalising multi-year programmes and linking this to delivery of robust local housing strategies. There was some scepticism about local housing strategies: the need for resources, training and partnership was recognised if these processes and the analytical elements of them were to be fully and consistently realised. One interviewee felt that there was much more scope for consensus building around multi-year programming within local strategic plans. All of the participants also supported more emphasis on delivery of programmes but felt that integration within local strategies, if adequately resourced, could facilitate delivery. One interviewee argued that an independent inquiry should be set up to examine housing programme delivery.

There was little support for an explicit performance element and this was not seen as fair on local people nor was it likely to command political support. However, tying

funds into concepts such as sustainability of investment would be likely to be more acceptable to councils. Moreover, several interviewees felt that the potential of longer term programmes linked to evaluated local housing strategies (as in Scotland, where this is carried out by Communities Scotland) would act as a form of performance or quality test.

Interviewees were asked if they favoured formula systems and if so whether these should be relatively complex or transparent. Most did support formulae but while transparency was favoured for political and accountability reasons, others made a case for more complex but objectively more supportable bundles of indicators. However, it was also pointed out that direct measures where available were clearly preferable to proxies. One important suggestion was that a clear link could usefully be made between the Assembly's strategic housing objectives and the actual indicators chosen.

Representatives of rural areas argued that formulae tended to disadvantage them and that there was a case for a ring-fencing of funds for rural and indeed for special needs. Furthermore, evidence was cited of rural councils working together on joint bids and taking explicit account of cross-border issues. More negatively, reliance on historical spending as a means of allocating resources is, if nothing else, a guide to the ability of councils to spend their resources.

### **Wider Lessons**

The consultation process developed a set of equally weighted housing and person-based indicators that were combined in an index, with the most favoured version being one that was weighted 75:25 in favour of housing need. The resulting index

was calibrated to take account of local cost variations. Tables were produced to indicate the distributional consequences of this index along with a per capita distribution, the status quo and other variants of the mix between housing and people-based needs. A dampening mechanism was implied that would reduce year-on-year impacts of significant change in resourcing to individual councils. Several of the large, more urban authorities stood to lose heavily from the projected redistributions.

Analysis by the authors raised a number of points about the narrow methods employed for the index in relation to the different units of observation used, the varying vintages of information, weighting decisions and, conceptually, whether all of the indicators were truly independent of each other. These issues bring into question the sensitivity and robustness of the index.

The consultation exercise was inconclusive and many responses from local authorities and from RSLs were critical. The main criticisms are summarised below.

1. The indicators chosen were perceived to be flawed (e.g. waiting lists), non-comprehensive (e.g. did not take account of affordability issues) and/or were crudely applied (e.g. household change).
2. The formula-based approach was perceived by many to undermine the bottom-up use of business planning and local housing strategies, and, in particular, locally led housing needs assessments making specific use of market analysis. This was seen to be also in direct opposition to the Assembly's vision for housing, which was characterised as being locally-

oriented and diverse, rather than in some sense driven from the centre through a funding formula.

3. There was considerable criticism of the rationale and use of people-based deprivation measures, reflecting wider uncertainties about the appropriate legitimate uses of SHG.
4. The uses and scope of SHG are critical to allocation, as is the disaggregation of SHG and the levels of support that apply for different activities e.g. supporting RSL new development versus low cost home ownership.
5. It was also strongly argued that such an index provides no incentive for better performance by providers.
6. A further well-articulated point was that the formula assumes it is sufficient to identify need and allocate accordingly; no account is taken of available supply and the capacity of local providers to meet need if funds are available (e.g. local development capacity and land markets are two important factors that require consideration in respect of this issue).

Moving forward, the interviews carried out for this project with different interested parties made several constructive points. First, while there was no support for performance based measures, it could be possible to link allocations to sustainable or more defensible investment. This latter point links to a concern that where SHG is allocated in order to support regeneration that this should be explicitly tied to compulsory non-housing investment. Second, there was unanimous support for tying multi-year programmes of allocations

to well-defined and resourced local housing strategies (though operating this at supra-council levels was acknowledged to be challenging). In short, Government should

provide multi-year programmes to local areas if good strategies are produced that clearly demonstrate need and how it is to be tackled.

## 5 Synthesis and Conclusions

### Introduction

In this section we summarise the main points thus far before setting out our conclusions for moving resource allocation forward in Wales.

### Summary

The aim of the project was to commission independent advice on how SHG could be allocated so that:

- The geographical pattern of allocation reflects the absolute level, severity and spatial intensity of those forms of housing need which SHG can be used to alleviate; and
- The approach to allocation achieves maximum impact in meeting those forms of housing need to which SHG is designed.

In earlier chapters, the allocation of funding was examined from several different perspectives. In each case, key findings and implications were drawn out:

- A critical review of examples of non-housing sub-national resource allocation. (Section 2)
- A critical examination of the present (and recent) methods of sub-national resource allocation of SHG in Scotland and England. (Section 3)
- An assessment of the Welsh Assembly consultation process carried out in 2002. (Section 4)

### Section 2

This section illustrated some of the systems used outside the housing sector, which allocate public sector funds based on a relative needs system. The common structural elements are:

- a population driven basic allocation
- adjustments for geographical differences in costs
- adjustments for geographical differences in deprivation

The definition of the 'need' being met is ultimately a 'political' one. So too is the derivation of any formula to address it. Rarely, if ever, will there be unanimity over the 'need' being addressed and the best way of measuring it and so judgement, usually political judgement, is a vital and necessary part of the process.

It is important, therefore, to recognise that, ultimately, such allocative systems, and the 'needs' they are meant to meet, are considerably influenced by political judgement and not by objective research. However, once such judgements have been made regarding 'need' and the specific purpose of the allocation system e.g. to equalise the standard or availability of certain public services, then such objective research can be effectively used to come up with an efficient allocative system.

### Section 3

Models of sub-regional resource allocation operate to distribute SHG in both England and Scotland. However, despite both systems using needs-based indicators (and

measures of people-based deprivation), the approaches are in flux and display elements of convergence and divergence. In England, the allocation mechanism is used but is increasingly subsumed by regional boards made up of key stakeholders who prioritise funding within regions. Analysis at the sub-regional level is likely to be more extensively used in future. In Scotland, area-based indicators are in the process of being replaced by a strategic investment partnership that links resource allocation assumptions to the quality of local housing strategies and sets them within a multi-year programme to be delivered by councils and RSLs. The actual indicators to be used are not yet finalised.

#### Section 4

The consultation process developed a set of equally weighted housing and person-based indicators that were combined in an index, with the most favoured version being one that was weighted 75:25 in favour of housing need. Several of the large, more urban authorities stood to lose heavily from the projected redistributions. Further analysis raised a number of points about the narrow methods employed for the consultation index. These issues bring into question the sensitivity and robustness of the index. Many responses from local authorities and from RSLs were critical. The main criticisms are summarised below.

- The indicators adopted were perceived to be flawed, non-comprehensive and/or were crudely applied.
- The formula-based approach undermined the bottom-up use of business planning and local housing strategies. This was seen to be also in

direct opposition to the Assembly's vision for housing.

- There was considerable criticism of the rationale and use of people-based deprivation measures, reflecting wider uncertainties about the appropriate legitimate uses of SHG.
- The uses and scope of SHG are critical to allocation, as is the disaggregation of SHG and the levels of support that apply for different activities.
- It was also strongly argued that such an index provides no incentive for better performance by providers.
- The formula assumes it is sufficient to identify need and allocate accordingly; insufficient account is taken of available supply and the capacity of local providers to meet need if funds are available.

Several constructive points were made by interviewees. First, while not supporting performance based measures, it could be possible to link allocations to sustainable or more defensible investment. Second, there was unanimous support for tying multi-year programmes of allocations to well-defined and resourced local housing strategies.

#### Conclusions

A first point we would stress is that there are areas of convergence and consensus and areas where none is apparent. In part this is due to politics and the relationship between different actors affected by the distribution mechanism (principally, the Assembly, local authorities and RSLs). However, it is worth reiterating apparent points of agreement:

- There is considerable support for multi-year programming for strategic and deliverability reasons. This goes well beyond the planning assumptions presently laid out in years 2 and 3 of annual funding agreements between the Assembly and councils.
- Support is strong for the integration of allocation with the local housing strategy (LHS) and local needs assessment on the lines of the Scottish model though it is recognised that LHS and needs assessment have to be effectively organised, consistently implemented and resourced.
- The actual indicators chosen in the previous exercise were perceived to be flawed and the weightings between indicators and groups of indicators were commonly viewed as arbitrary. This is more than just rationalisation of adverse outcomes associated with new distributions but reflects the fact that considerable original new work will inevitably have to be done by the Assembly to construct any subsequent index. However, there does seem to be broad acceptance that an ‘objective’ index or formula should be used to distribute resources.

Second, while there was little support for performance elements within the mechanism, interviewees did suggest creative ideas for promoting sustainable investment (though this would have to be well-defined and operational) and, within the context of regeneration/low demand spend, to identify complementary non-housing investment.

Third, despite investigation, there is little direct evidence of controversy or ambiguity or problems arising from the uses and definition of Social Housing Grant as laid down by the Assembly (and indeed in England and Scotland). There clearly is contention over prioritising its use for overcoming scarcity-based housing need or for the different purpose of attacking low demand or regeneration. However, both uses appear to be viewed as quite legitimate but priorities appear to be shaped by the absolute level of funding in total (generally viewed as inadequate to meet priority requirements), the nature of local problems and the relative cost-effectiveness of different forms of solutions (e.g. new build versus rehabilitation).

Fourth, the key points of disagreement are also helpful in narrowing the scope of an allocation mechanism:

- Housing professionals by and large want formula-based approaches that accurately measure the target problem, e.g. housing need and are willing to accept a level of complexity and opaque design to achieve this. However, councillors and RSL management committees require more transparent models. A parsimonious index is, we would argue to be preferred. The on-going improvements in data availability will continue to address the widely recognised problem of using proxies and indirect measures of need, etc. This should be reflected in weighting and indicator transformation as well as in original selection.
- Housing professionals tended to favour measures focused on housing need but people-based indicators

were also supported by others although recognising the earlier point about priorities and overall resources.

- While many supported the in-principle argument for allocating resources to functional housing market areas, or sub-regions, political feasibility seems to dictate that the allocations have to go to local authorities. Spatial planning at levels above council boundaries is helpful but it needs to overcome these strongly-held political views on autonomy and spheres of competence.

Fifth, the experience of England and Scotland is instructive, because of the convergence in certain areas of allocation (the use of local strategies, decentralisation, multi-year programming, debates over the specific indicators to use, the mix of housing need and people-based indicators proposed, and the attempts to involve stakeholders e.g. through regional boards). At the same time, the divergence between the two is also instructive not least because it demonstrates the political and subjective elements that inevitably come into the calculation (see below). However, the model contained within the Scottish Strategic Investment Framework sequentially linking Local Housing strategies to bidding, allocation and delivery of investment looks promising as an overall model.

Finally, the non-housing review indicated that while there are basic similarities for all allocation models, the relationship between the political or the accountable with the indicators and their combination must be explicitly considered. The difficulty of handling rural housing need or low demand is a good example of where

political pressures may legitimately override allocative criteria. Nonetheless, this is also an example of where investment in data management, housing planning and analysis can have a considerable pay-off.

Our recommendations are in the form of questions that the Assembly might wish to consider in order to help inform and shape a future allocation mechanism. We also include our summary view on each topic.

- The definition of need or needs being met by SHG allocation. To a large extent this is in the gift of the Assembly who can decide to either define different forms of resourcing within or out of scope and who also can simply allocate proportions of funds to specific activities such as mainstream general needs or to specialist housing or promoting home ownership – thereby prescribing what needs can be met with available funds. We would support retaining a wider scope for discretion rather than the narrowing of the uses to which SHG might be put to.
- A top-down or bottom-up approach? We would favour an integrated approach that recognises the political constraints on sub-regional allocations but that local housing strategies themselves need not be constrained wholly by administrative boundaries.
- Allocation based on primary or secondary sources? Secondary sources tend to have better data quality or a clearer ‘audit trail’ whereas primary data has often been collected for other reasons. However, improvements in data are rapidly blurring these distinctions.

- Relative importance of local housing strategies in the allocations? This is essential and we would emphasise the Communities Scotland integrative approach linking LHS to allocation, bidding and multi-year programming.
- How does allocation fit in with wider plans of the Assembly e.g. in relation to economic development, social justice and rurality? We would support the case for further work to be done to explicitly link indicators and index construction to meeting housing objectives or aims as laid down in Assembly policies or visions.
- Use of top-slicing for specific purposes. This seems inevitable as a shorthand way of expressing political priorities and attending to issues (e.g.

rural housing) that remain highly contentious in terms of their capturing in formulaic approaches.

- Simplicity v complexity (opaque v transparent) in any formula-based index that might be used as part of the allocation. The index should be parsimonious but led by direct and objective indicators of the target variables.

Another way of thinking about these questions is to see them as options for progress towards a resource allocation mechanism. Below we set up a hypothetical matrix of choices for the allocation system with four fundamentally different approaches to take. This diagram helps us to consider the consequences of following certain routes rather than others.

**Table 5.1 Approaches to SHG Resource Allocation**

<b>Characteristics</b>	<b>Current Welsh approach</b>	<b>75:25 consultation approach</b>	<b>Scottish model</b>	<b>English model</b>
General housing needs focused	**	**	**	**
Special needs focused	*	**	**	*
Top-down formula	***	***	**	**
Bottom-up local housing strategy element			**	**
Annual historical funding element	***	*		
Multi-year programme and deliverability of programme	*	*	***	**
Simple model	*			
Objective but complex model		*	**	**
Use of housing need indicators		**	**	*
Use of people-based or deprivation indicators		**	**	*
Clear links to wider Government objectives or visions		*	***	***

The existing allocation model for Wales (**current Welsh approach**) is a top-down formula heavily based on the historical spend allocated to local authorities. While it is simple to use and more oriented towards general housing need, evidently it does not fit well with local housing strategy development or new measurement of housing need. Neither is it clearly linked to emerging wider Assembly Government policy objectives. The major advantage of the approach is that it offers councils some certainty about future spend levels and it should mean that most of the resources could be delivered based (looking back) on council track records.

The **75:25** model is top-down, relatively complex or opaque, uses both housing and deprivation indicators (equally), and has a dampening element which relates to historical spend. It includes both general and special needs explicitly in its calculation. However, it is effectively independent of the local housing strategy or bottom up stage and has only a limited multi-year component (effectively the same as the limited carry-over with the current system in practice).

The proposed Scottish model is strong on its multi-year focus and the clear links it has to wider Executive policies (as a result of Ministers' direct role in funding). It uses a broad set of indicators but these interact with the local housing strategy in order to determine the final programme. It is not, however, a simple process to convey or articulate.

Finally, the new English model for the regions employs both indicators but with considerable discretion among stakeholders, who allocate funds at the sub-regional level. This means that there is greater variability in outcome and possibly more negotiation and uncertainty surrounding decisions but it is more accountable locally. It should be more focused around multi-year programme deliverability than the current Welsh system but it is relatively complex to describe and explain.

While these are not the only choices available they do possess distinctive and shared features that are likely to be relevant when one moves towards some form of final choice of allocation mechanism.

## Appendix A

### Indicators Identified as Significant and used for Acute Hospital Services

The following indicators were used in a variety of combinations in relation to six disease groups (circulatory diseases, cancer, respiratory diseases, diseases of digestive system, injuries and poisonings, other acute diseases):

#### **Housing**

- people living in private accommodation (%)

#### **Social**

- people over 75 living alone (%)
- dependents in single carer households (%)
- children in lone parent households (%)
- children in non-earning lone-parent households (%)
- dependents with no carer (%)
- economically inactive lone parent families (%)

#### **Morbidity and Mortality**

- people over 65 permanently sick (%)
- Standard Mortality Rate (SMR) 0-64
- SMR 0-74
- SMR all ages
- Average birth rate

#### **Deprivation**

- People in manual classes (%)
- Male unemployment (%)
- Female unemployment (%)
- People unemployed for more than 12 months (%)
- People unemployed for more than 24 months (%)
- People claiming income support (%)
- Households in overcrowded housing (%)



## Appendix B

### Police Services

The full formula used to calculate the Police element involved the following:

- A basic population measure
- A deprivation top-up
- A density top-up
- A sparsity top-up
- A roads coverage factor
- An area costs adjustment
- A security expenditure and police pensions adjustment
- A police grant rate adjustment
- A scaling factor adjustment

(In addition, there were two variations of the top-up adjusted basic population measure, based on daytime and resident populations.)

In all, there were 19 different variables used to calculate the formula, including:

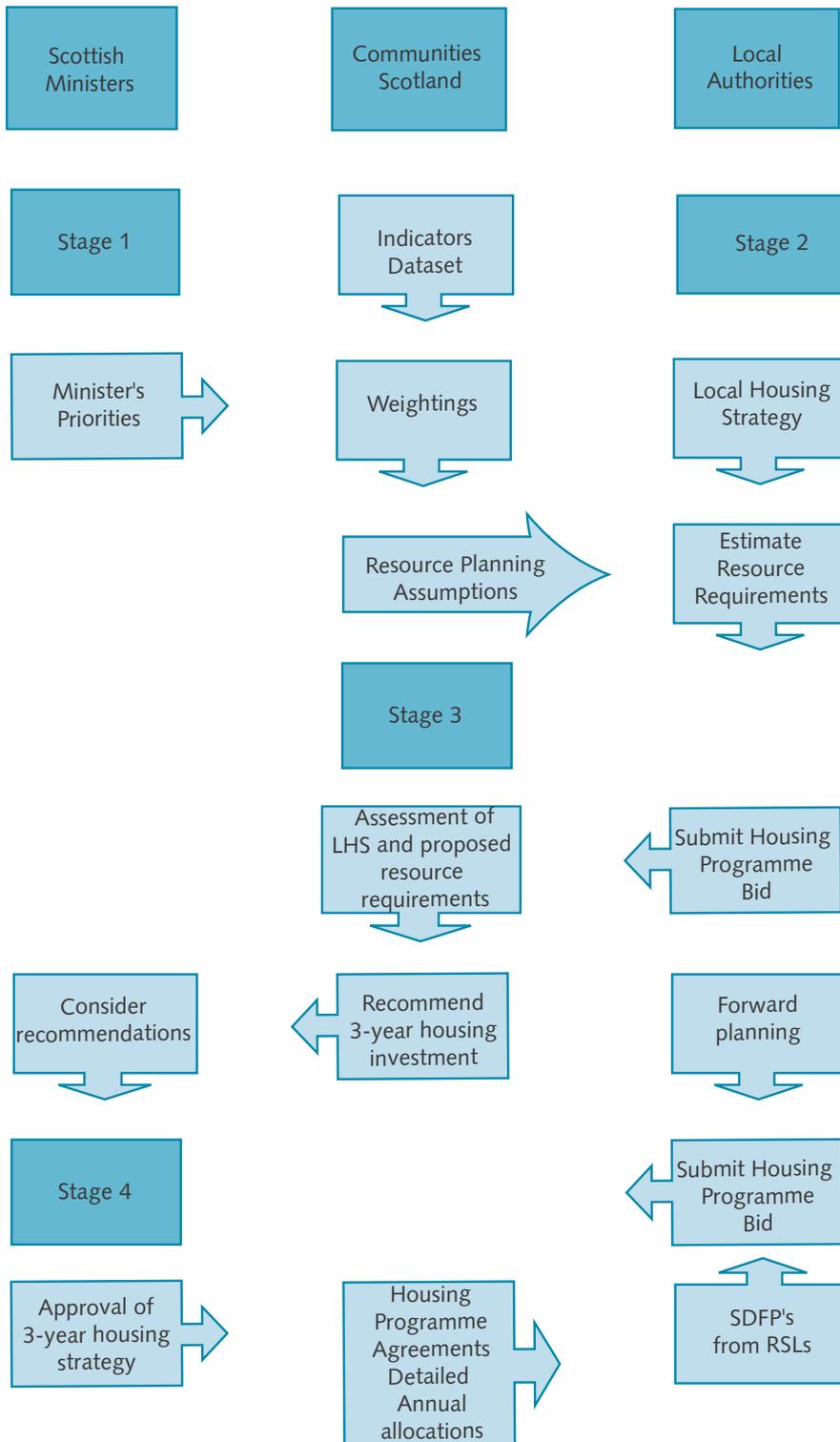
- Resident population
- Daytime population
- Households renting
- Residents in terraced accommodation
- Residents in lone parent families
- Residents in overcrowded households
- One adult households
- Striving population
- Unemployment related benefit claimants
- Long term unemployment related benefit claimants
- Young male unemployment related benefit claimants
- Population density
- Population sparsity
- Built-up road lengths
- Motorway lengths



## Appendix C

### Communities Scotland Strategic Investment Flowchart

#### Strategic Investment Framework



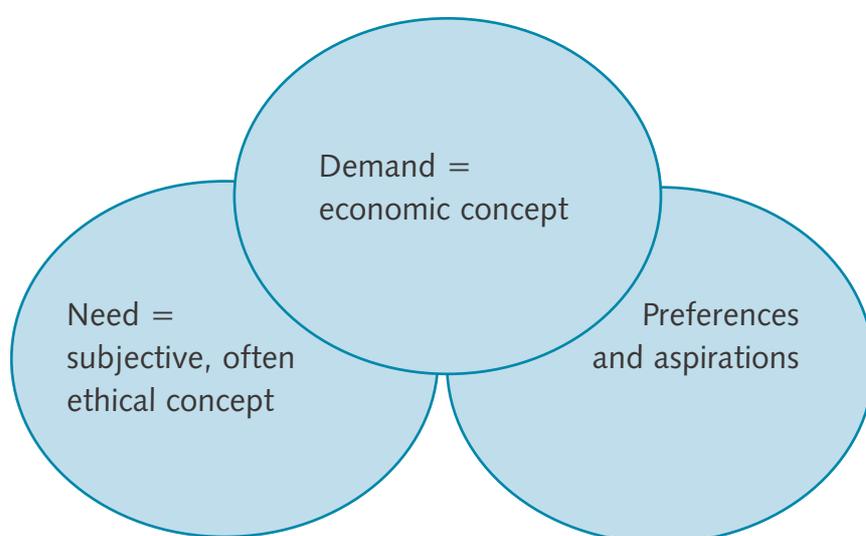
Source: Communities Scotland, 2004



## Appendix D

### Box 2.1 Housing needs and demands: clarifying the concepts

In the context of housing planning, the terms 'need' and 'demand' are often used interchangeably. Although they are different concepts, they can overlap, causing confusion. The position can be further confused by the terms 'preference', 'aspiration' and 'housing requirements'. It is important to be as clear as possible about the differences (and the overlaps) between these terms. The purpose of this illustration is to further clarify the key terms, as set out in section 1 of the 1999 Guide (paras. 1.24-1.27).



**Demand** is a market-based concept defined as both the **willingness** and **ability** of households to pay for a certain good, in this case housing. Individuals or households decide, on the basis of their **incomes**, **preferences** and the prices for housing and other goods and services, that they are prepared to pay a given amount for a particular type and quality of housing in a particular location. Demand may either be **effective**, where adequate supply exists to meet expressed demands, or **latent**. Latent demand occurs if a household has the willingness and ability to pay for a specific type of housing in a given area, but the desired housing has not been supplied by the market, perhaps because of a market failure.

**Need**, on the other hand, is a subjective concept with a number of different definitions. Most commonly need is defined in a **normative** sense, meaning that it is related to minimum standards (or norms) defined by national or local governments or other groups of professionals. Professionally defined needs can be distinguished from **felt needs**, that is, individual expressions of want for a given level of housing (or other good). Some individually expressed needs might be readily convertible into effective demands, while others might not, if households do not have the resources to satisfy them. Equally, expressed needs might be at odds with normative needs, and thus remain unsatisfied unless the household has adequate resources to meet these needs themselves. The normative measurement of need allows providers to prioritise individual cases and ration the housing stock.

Individuals and households may have particular housing **preferences**, that is, they may favour one type of housing or location over another. Similarly, **aspirations** are desires for a particular tenure, type, standard or location of property. Both preferences and aspirations can be frustrated due to lack of suitable housing or to an inability to pay for them, so neither is synonymous with demand, nor will they necessarily be consistent with professionally defined needs. In many cases, preferences and aspirations are now more important determinants of housing choices by tenants than in the past, most clearly seen in situations of surplus social housing. In high demand areas, rationing will remain a more binding constraint.

It is the housing system as a whole that generates the needs and demands that together create the overall **housing requirement**. This is typically defined in terms of the **household-dwelling balance** that is the basic measure of housing shortage or surplus (see 1999 Guide, Appendix 2). But this is a crude, aggregate measure that should be regarded as only a first step in assessing overall needs and demands. As indicated in the 1999 Good Practice Guide, the balance calculation could conceal a variety of needs and demands at more local levels, including for example mismatches between existing housing and household size or household preferences.

Source: Housing Market Guidance, Welsh Assembly, 2002.

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Helen Wyatt  
Housing Directorate  
Welsh Assembly Government  
Cathays Park  
Cardiff  
CF10 3NQ

Tel: (02920) 821718  
E-mail: [helen.wyatt@wales.gsi.gov.uk](mailto:helen.wyatt@wales.gsi.gov.uk)  
Website: <http://www.housing.wales.gov.uk>