



Llywodraeth Cynulliad Cymru
Welsh Assembly Government

Housing Research Summary

A Study to Advise on the Allocation of Social Housing Grant

Introduction

Social Housing Grant (SHG) is the principal capital grant used by the Welsh Assembly Government (the Assembly) to help registered social landlords (RSLs) provide affordable housing. The current Welsh approach to the allocation of SHG, which relies primarily on a formula developed around programme share from 2001-2002, has been criticised as poorly reflecting relative levels and intensity of need for social housing investment in different parts of Wales. In 2002 the Assembly consulted local authorities and RSLs on possible options for future allocation. No consensus was reached and the existing geographical pattern of allocation was retained.

For these reasons, the University of Glasgow was commissioned in 2003 to provide the Assembly with independent advice on the allocation of SHG. The study involved a review of current and past systems of allocation in Wales, Scotland and England, supplemented by interviews with key administrators, social landlords, representative bodies and policy makers. A critical review was also undertaken of non-housing, sub-national resource allocation mechanisms.

About the Study

Various mechanisms have been used to distribute SHG in Wales since 1989. The main criticisms of the way it has been distributed include:

- Its heavy reliance on the variable quality of RSL bids and Local Authority Housing Strategy and Operational Plans through the 1990s.
- That insufficient account has been taken of indicators of the relative need for SHG investment since 1999. In practice, outcomes have tended to follow historical expenditure trends.
- That allocation mechanisms have been undermined by ad hoc minor annual adjustments.

Models of sub-regional resource allocation operate to distribute SHG in both England and Scotland. Both systems use housing needs-based indicators such as homelessness and measures of multiple deprivation, such as poverty measured by benefit dependence. The English mechanism is increasingly being subordinated by the growing importance of regional boards made up of key stakeholders who prioritise funding within regions – although regional allocations remain formula-driven from London. Moreover, there is increasing interest and willingness to adopt more systematic approaches at the sub-regional level based on a common analytical framework in the future. In Scotland, area-based indicators are in the process of being replaced by a strategic investment partnership that links indicative resource allocations 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.

Systems used to allocate public sector funds based on a relative needs approach (including that emerging from the Report of the National Review of Resource Allocation for the NHS in Scotland, the new formula grant distribution system of 2003 for the English Local Government Finance Settlement and the Barnett Formula) share structural elements of:

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

Under such systems the definition of the 'need' being met and the derivation of any

formula to address it are ultimately 'political'.

The Welsh 2002 consultation process developed a set of equally weighted housing and person-based indicators that were combined in an index. The version weighted 75:25 in favour of housing need emerged as the favoured option. Several of the larger, more urban authorities stood to lose heavily from the projected redistributions. Many responses from local authorities and RSLs were critical, as summarised below:

- The indicators adopted were perceived to be flawed, not comprehensive and/or crudely applied.
- The formula-based approach undermined the bottom-up use of business planning and local housing strategies. This was seen to oppose the Assembly's vision for housing.
- There was considerable criticism from consultants but particularly from local authorities, concerning the rationale and use of non-housing, multiple deprivation measures, reflecting wider uncertainties about the appropriate legitimate uses of SHG.
- SHG is allocated to local authorities, who then have discretion as to how to use it. However, different uses and scope of SHG are critical to final intra-council allocation, as is the disaggregation of SHG and the levels of support that apply for different activities. For instance, there are grey areas between housing and care investment, and when the total resource is limited, the decisions to prioritise, for instance, care provision

over 'traditional' general needs allocations to RSLs take on increased importance. This was a view reflected by both local authorities and RSLs.

- 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.

Conclusions and Recommendations

First, there are areas of consensus amongst those affected by the distribution mechanism (the Assembly, local authorities and RSLs), including:

- 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.
- There is strong support 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 has to be well defined and resourced, effectively organised and consistently implemented.
- The indicators chosen in the consultation 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 and reflects the fact that considerable original new work will inevitably have to be done to construct any new 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 based measures, interviewees did suggest ideas for linking allocation to sustainable or more defensible investment. For example, a supporter of prioritising general needs funding argued that, where SHG is allocated to support area regeneration, this should be supported by identified and budgeted complementary, non-housing investment - otherwise, there was a danger that the multi-sectoral nature of regeneration would undermine the social return on SHG.

Third, and despite the points made above, there was in fact little direct evidence of problems arising from either the use or definition of SHG as set down by the Assembly. In prioritising the use of social housing grant, there is a fierce debate between traditional approaches that aim to tackle the needs associated with housing scarcity, and regeneration orientated approaches that aim to tackle low demand. Both appear to be viewed as legitimate uses, but priorities appear to be shaped by the absolute level of funding (and this is generally felt to be inadequate to meet priority requirements). Other important factors include 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 housing need, and are willing to accept a level of complexity and opacity to achieve this. However, councillors and RSL management committees prefer more transparent models.
- While many supported the argument in principle for allocating resources to functional housing market areas, or sub-regions, the current political climate supports allocation 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 there has been convergence in some areas (the use of local strategies, decentralisation, multi-year programming, debates over the specific indicators to use, the mix of housing need and area-based deprivation indicators proposed, and the attempts to involve stakeholders e.g. through regional boards). At the same time, some divergence between the two is also instructive because it demonstrates that political and subjective elements inevitably come into the calculation. However, the model contained within the Scottish Strategic Investment Framework linking Local Housing Strategies to bidding, allocation and the delivery of investment looks promising as an overall model.

Finally, the review of non-housing resource allocation mechanisms indicated that while there are basic similarities between all allocation models, the overriding importance of political influences 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.

The Assembly should consider the following questions in order to help shape any future allocation mechanism:

- **The definition of the type of need to be met by SHG.** The Assembly is at liberty to prescribe the scope and range of the uses of SHG. It could choose to widen or reduce the scope of SHG resourcing, or to allocate proportions of available funds to specific activities such as specialist housing or promoting home ownership. The report supports retaining a wider scope (to which discretion may be applied), rather than narrowing the uses to which SHG might be put.
- **A top-down or bottom-up approach?** The report favours an integrated approach that recognises central political priorities but also the superior information held at the local level. It also recognises that political constraints may limit the scope for sub-regional allocation. However, local housing strategies themselves should not be constrained wholly by administrative boundaries if they are to best understand the local housing system.

- **Relative importance of local housing strategies in the allocations?** Local housing strategies (LHS) should provide clear direction and justification for grant to meet specific requirements justified through a systematic analysis of evidence at the local level and related clearly to local priorities. The report emphasised the Communities Scotland integrative approach that links LHS to allocation, bidding and multi-year programming. In Scotland, the LHS (and its quality) plays a critical role in linking resource assumptions made by Ministers to the programming of resources over a period of years.
- **How does allocation fit in with wider plans of the Assembly e.g. in relation to economic development, social justice and rurality?** The resource allocation mechanism should be driven by overarching policy aims or the national political vision. The

report supports the case for further work to be done to explicitly link the index to meeting housing objectives laid down in Assembly policies or visions.

- **Use of top-slicing for specific purposes?** This is likely to continue as a direct way of expressing national political priorities and addressing issues not consistently captured in formulaic approaches (for example, rural housing).
- **Simplicity v complexity in any formula-based index that might be used as part of the allocation.** The index should be as simple as is feasible but led by direct and objective indicators of the target variables. The on-going improvements in data and their accessibility should reduce the widely recognised problem of using proxies or indirect measures of need.



The report [A Study to Advise on the Allocation of Social Housing Grant](#) and further copies of this summary can be obtained from:

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