



Department for  
Communities and  
Local Government

# Future Funding of the Housing Ombudsman

Consultation

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

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# About this Consultation

## Scope of this consultation

<b>Topic of this consultation:</b>	This consultation sets out proposals for the future funding of the Housing Ombudsman from 2014 onwards.
<b>Scope of this consultation:</b>	This consultation invites comments on the proposal to extend the Housing Ombudsman's existing fee charging model to local authority landlords from April 2014, as well as on the proposed consequential changes to the Housing Ombudsman's Scheme arising from this proposal. It also invites consultees to respond on the proposal for an alternative funding model post 2016.
<b>Geographical scope:</b>	England only

## Basic Information

<b>To:</b>	This consultation is of particular interest to local authority landlords; but also of relevance to other landlords who are members of the Housing Ombudsman Scheme.
<b>Responsibility for the Consultation:</b>	This consultation is being run by the Affordable Housing Management and Standards Division in the Department for Communities and Local Government.
<b>Duration:</b>	From 19 December 2013 to 30 January 2014
<b>Enquiries (including requests for the paper in an alternative format) to:</b>	For further information about this consultation please e-mail <a href="mailto:HousingOmbudsmanConsultation@communities.gsi.gov.uk">HousingOmbudsmanConsultation@communities.gsi.gov.uk</a>
<b>How to respond:</b>	Consultation responses should be submitted by email to: <a href="mailto:HousingOmbudsmanConsultation@communities.gsi.gov.uk">HousingOmbudsmanConsultation@communities.gsi.gov.uk</a>  Or by post to: Begoña Vilaplana Affordable Housing Management and Standards Division Department for Communities and Local

Government  
Eland House, Zone 1/E2  
Bressenden Place  
London, SW1E 5DU

**Additional ways to become involved:**

We are willing to engage with local authority landlords and other interested parties during the consultation process.

**After the consultation:**

A summary of the responses to the consultation will be published on the Department's website by February 2014.

**Compliance with the Code of Practice:**

This consultation document and the consultation process have been planned to adhere to the Government Code of Practice on consultation. The period of consultation will be six weeks given the limited nature of this consultation.

# Chapter 1

## Introduction

### Overview of proposals

The single Housing Ombudsman was launched on 1 April 2013 with an extended jurisdiction to cover both housing associations and local authority landlords. A new Housing Ombudsman Scheme<sup>1</sup> (setting out the Ombudsman's terms of reference) (“the Scheme”) came into effect on 1 April.

The Housing Ombudsman now provides a simple and easily understandable route of redress for all tenants and leaseholders of social landlords, providing a centre of expertise on social housing matters.

This consultation aims to gather views and comments from both local authority landlords and other member landlords of the Scheme on the proposal to extend the Housing Ombudsman’s existing fee charging model to local authority landlords from April 2014. We are also seeking preliminary views on an alternative funding model from 2016.

The Scheme will need to be amended to extend the fee charging model to local authority landlords. The Government considers that this will be a ‘significant amendment’, and so, in accordance with paragraph 3 of the Scheme, this consultation exercise seeks members’ views before it is made.

‘Managing Public Money’<sup>2</sup> explains Government policy on charging for publicly provided services. Charging for services transfers the cost from the taxpayer to the users who benefit directly, giving a fairer distribution of public resources and lowering public expenditure. The standard policy is to set charges to recover full cost.

The Government’s overall intention in extending the fee charging model to local authority landlords is to ensure the financing of the Housing Ombudsman reflects the following key overarching objectives:

- *Fairness* as the cost of the service provided by the Housing Ombudsman will be borne by all landlords registered under the Scheme in an equitable manner;
- *Transparency and certainty* as a consistent revenue process for the Housing Ombudsman across the social landlord sector will be efficient and economical to administer and enable the sector to predict likely fees; and

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<sup>1</sup> Housing Ombudsman Scheme, February 2013, available to view at: <http://www.housing-ombudsman.org.uk/media/13142/hos-final-scheme.pdf>

<sup>2</sup> Managing Public Money, HM Treasury, July 2013, available to view at: [www.gov.uk/government/publications/managing-public-money](http://www.gov.uk/government/publications/managing-public-money)

- *Cost reflective* as the proposed fee level should reflect appropriately the income required by the Housing Ombudsman to discharge its obligations under the Scheme.

The proposals we are consulting on, hence, are designed to create a level playing field across the social landlord sector in financing the costs of the Housing Ombudsman.

## **Background**

Social housing in England is provided by either local authorities or housing associations and totals around 4m homes and houses around 8m tenants.

The Housing Act 1996 placed a requirement on all housing associations to be a member of a housing ombudsman scheme approved by the Secretary of State. The role of the Housing Ombudsman is to resolve disputes involving members of the Scheme and to support effective landlord – tenant dispute resolution by others.

From 1 April 2013, a local authority is also obliged to be a member of the Scheme in respect of action which is taken by it, or on its behalf, in its capacity as a registered provider of social housing, and in connection with its housing activities (so far as they relate to the provision or management of social housing).

This change was introduced by the Localism Act 2011 which transferred responsibility for dealing with complaints from local authority tenants (about the authority's provision or management of social housing) from the Local Government Ombudsman to the Housing Ombudsman.

Managing agents and private sector landlords can join the Scheme on a voluntary basis.

## **Legal context**

The Housing Ombudsman has the power to set fees for social landlords to be members of the Scheme (paragraph 11(1) of Schedule 2 to the Housing Act 1996). Paragraphs 12 to 18 of the Scheme set out the current financing model.

The Housing Ombudsman is required to follow HM Treasury Guidance on 'Fees and Charges' and set fees that cover its costs. Income from fees can only be used to cover the cost of discharging its obligations as set out in the Scheme.

From 1 April 2013, under paragraph 16 of the Scheme, any increase in the Housing Ombudsman's annual fee charge, whether as a result of a change to the charging methodology or otherwise, will have to be approved by the Secretary of State.

# Chapter 2

## Funding proposals

### Current Funding arrangements

The Housing Ombudsman has historically been totally funded by fees levied from housing association and other member landlords. The Local Government Ombudsman's core funding, on the other hand, is through Grant-in-Aid payments from the Department for Communities and Local Government.

In recognition of the Housing Ombudsman's extended jurisdiction from 1 April 2013, grant funding was transferred from the Local Government Ombudsman for the years 2013/14 and 2014/15.

The Scheme is, therefore, currently financed by a subscription payable on demand to the Ombudsman by each member or, in respect of local authorities only, by grant-in-aid from the Secretary of State.

### Proposed changes to funding arrangements

The Government's intention is to have in place a funding system for the Ombudsman which is fair, efficient and proportionate to all social landlords. To achieve this, we have considered the Housing Ombudsman's existing charging model alongside alternative funding models.

However, given the recent extension of the Housing Ombudsman's jurisdiction to local authority landlords, the Housing Ombudsman holds limited data on historic levels of complaints by local authority tenants or leaseholders. In addition, the data which the Housing Ombudsman has historically collected on housing associations' use of their service was not being collected for this purpose. This means that it has not been possible to carry out detailed modelling to assess the impact of alternative funding models on landlords.

The Housing Ombudsman has introduced a comprehensive reporting system from April 2013 which will mean that this data will be available in future years. As data becomes available, we will take the opportunity to review whether there are alternative funding models that will help take better account of the impact of individual member landlords on the Ombudsman's workload. It is intended that the Housing Ombudsman should carry out a review in 2016 when the organisation will hold two years' data from all member landlords.

### Funding proposal from April 2014

It is the Government's intention for local authority landlords to contribute to the funding of the Housing Ombudsman from April 2014. Pending further review of the Ombudsman's charging model as outlined above, we propose in the interim to extend the Housing

Ombudsman's current fee charging system to local authority landlords. This will require subscriptions to be paid annually on demand to the Ombudsman by each member.

The underlying principle used by the Housing Ombudsman for calculating its fee rates has been that each member landlord pays an amount decided by reference to the number of units of accommodation it owns or manages which are covered by the Scheme. The unit charge is calculated by dividing the budget set for the forthcoming financial year by the total number of units of accommodation. Each member's subscription is then calculated by multiplying the total number of units of accommodation that were held at the previous 31 March by the unit charge. This means that costs are spread in a way that aligns to the size of each housing provider.

The Housing Ombudsman's experience is that there is a broad correlation between a landlord's level of stock and the number of enquiries and complaints made by its tenants and leaseholders, as shown by Table 1.1.

**Table 1.1: Landlords Stock and Enquiries/Complaints Levels 2012/13**

Landlords (units of stock)	Number of Landlords	% Landlords	Stock Levels	% Stock Level	Number of Queries & Complaints (Q/C)	% Q/C by registered landlords
0 (1)	316	14.9	-	0	711	10.44
1 - 1,000	1,479	69.7	129,433	4.5	314	4.61
1,000 - 10,000	252	11.9	1,070,464	36.9	2,089	30.67
10,000 - 20,000	44	2.1	627,967	21.6	932	13.68
20,000+	29	1.4	1,073,036	37	2,766	40.60

Note: (1) Unit numbers assigned to parent member landlords'

All member landlords and, by extension their tenants, also benefit from the other services offered by the Ombudsman. These include a focus on fair and local dispute resolution between landlords and tenants, a website that supports this and allows enquiries and complaints to be made online, outreach work with stakeholders, and seminars for landlords and tenants at no additional cost.

### **Services provided by the Housing Ombudsman**

- Resolution and impartial investigation of individual complaints in accordance with dispute resolution principles.
- Advice and guidance to landlords, tenants and designated persons to resolve complaints effectively themselves.
- Identification and investigation of instances of systemic service failures.
- Intervention to encourage landlords and designated persons to learn from their experience of complaints handling and to improve the services they provide.

- Free learning and development resources for landlords, tenants and designated persons to improve complaint handling and promote early and local resolution of disputes.
- Interactive website to provide advice and guidance to support effective complaint handling and enable on-line complaints.
- Identification and sharing good practice in complaint handling.

The existing subscription model for housing associations was implemented on 1 April 1997 and has proved effective in that it is easy to administer and easy to understand as it relies on data that is publicly available and easy to verify. There have not been any problems with collection or bad debts, and evidence collected by the Housing Ombudsman shows that the current model has been considered to be a fair system by the members of the Scheme.

***Question 1: Do you agree that the current subscription funding model that already applies to housing associations should be extended to local authorities?***

***Question 2: Are there any aspects of this proposal that you do not agree with? Please explain why.***

***Question 3: Do you have any comments on the effectiveness of the current charging system?***

## **Consideration of alternative funding models post 2016**

The Government is committed to carry out a further review of the Housing Ombudsman's funding model in 2016 once comprehensive data on local authority landlord and housing association use of the Ombudsman's service is available. However, we would like to use this consultation to seek preliminary views on an alternative funding model that could be supported through improved data.

The future alternative proposal is for the Housing Ombudsman to apply a two tier charging model. This will introduce a fixed annual fee (based on the level of stock a landlord holds) applicable to all member landlords that will cover the costs to the Ombudsman in providing its broader services (e.g. the interactive website, and guidance and training for landlords, designated persons, and tenants on dispute resolution).

The fixed charge would be supplemented by a variable 'case fee' specific to the costs of the Ombudsman in dealing with enquiries and complaints. This fee would be calculated in relation to the number of enquiries and complaints received from the tenants of each landlord that the Ombudsman accepts with payment not dependent on the outcome. This means that the more complaints landlords resolve in-house or at the early stages of local dispute resolution, the less they will pay to the Ombudsman. Specific pricing proposals would need to be defined, based on the full recovery of the Ombudsman's costs.

***Question 4: Do you have any comments on such a potential future alternative model?***

# Chapter 3

## Revision of the Housing Ombudsman Scheme

In order to extend the fee charging model to local authority landlords, as set out above, the *'Financing the Scheme'* section of the Housing Ombudsman Scheme will need to be amended. Paragraph 12 of the current Scheme states that:

*'The Scheme will be financed by a subscription payable on demand to the Ombudsman by each member or, in respect of Local Housing Authorities only, by grant-in-aid from the Secretary of State.'*

Furthermore, paragraph 14 specifies that:

*'The subscription will be the amount that the Ombudsman decides is enough to meet all the expenses of the Scheme having taken into account any grant-in-aid from the Secretary of State.'*

The Housing Ombudsman proposes to amend the Scheme to remove the requirement for the Secretary of State to provide Grant-in-Aid to the Housing Ombudsman and to extend the requirement to pay fees to all members of the Scheme, including local authorities.

As outlined in Chapter One, the Government considers that this will be a 'significant amendment' and so, in accordance with paragraph 3 of the Scheme, this consultation exercise seeks members' views before it is made.

# Chapter 4

## Financial implications for Local Authority Landlords

Local authority landlords are responsible for the ongoing management, maintenance and operation of their housing stock. Under the self-financing model, local authorities have financial autonomy and, therefore, more accountability for the provision of housing services which are ring-fenced and managed through their Housing Revenue Accounts (HRA).

It is our expectation that the cost to local authorities associated with their legal obligation to be a member of the Scheme may be met through flexibilities in their Housing Revenue Accounts and should not have an impact on local authorities' general finances, or on those local authorities not holding housing stock. These costs could be debited under one of the following items provided by the Local Government Act 1989, Schedule 4 Part II:

- Item 1- Expenditure on Repairs, Maintenance and Management  
Payment of the Housing Ombudsman fee charge is related to the management of the housing stock as it is payment for a scheme under which tenants can raise issues about the landlord.
  
- Item 3 - Rents, Rates, Taxes and other Charges  
The Housing Ombudsman's fee charge is payable under statute and is calculated by reference to the number of units an authority has; hence this charge is liable to be paid in respect of houses within the account.

Our current estimate for the annual charge fee is approximately £1.05 per unit per year, with an estimated cost to the 167 local authority landlords of approximately £2m, which for 2014/15 will be reduced to take account of the grant funding (£826,000) transferred from the Local Government Ombudsman to the Housing Ombudsman.

Grant funding was transferred from the Local Government Ombudsman for the years 2013/14 and 2014/15 to reflect the Housing Ombudsman's additional responsibilities. For 2014/15, for administrative reasons, the intention is for this grant funding to be paid direct to local authorities. This will be allocated proportionately to all local authority landlords, based on the level of stock each owns following the same principle applied by the Housing Ombudsman in calculating their annual fee charge. This grant funding was available to manage the transitional change to the new Housing Ombudsman regime. This transitional support will end in March 2015. Consultation on a robust funding regime going forward across both local authority and other member landlords will be carried out in 2016.